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THE TRIPLE REVOLUTION:
A NEW METAPHYSICS

KARL BRUNNER

AGNOSTICISM AND MORALITY

HENRY HAZLITT

WAGE RATES, MINIMUM WAGE
LAWS, AND UNEMPLOYMENT

YALE BROZEN

ECONOMIC DEVELOPMENT AND
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Spring 1966 Volume 4 -- Number 3

The Triple Revolution: A New Metaphysics
3 KARL BRUNNER

Agnosticism and Morality
19 HENRY HAZLITT

Wage Rates, Minimum Wage Laws, and Unemployment
24 YALE BROZEN

Economic Development and Free Markets
34 REED J. IRVINE

The Sources of Monopoly
41 SUDHA R. SHENOY

What's Wrong with Right-to-Work Laws
45 HIRSCHEL KASPER

COMMUNICATION:

"Fragile" Constitutions
48 W. H. HUTT

BOOKS:

Kefauver and Populist Economics
53 SAM PELTZMAN

Freedom Under Lincoln
56 ARTHUR A. EKIRCH, JR.

New Books and Articles
59

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NEW
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REVIEW

A JOURNAL OF
CLASSICAL LIBERAL THOUGHT

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The Triple Revolution: A New Metaphysics

KARL BRUNNER

MAN'S CONCERN WITH salvation is ancient indeed. For millenia he has relentlessly poured out his intellectual resources in this pursuit. The pressures and frustrations of reality have demanded consoling orientations toward the universe and the social environment, and man has proved almost more than equal to this challenge of "existential anxiety." A profusion of products has been created to satisfy this demand; and over the centuries a rich pattern has evolved, from the biomorphic interpretations of the cosmos as in primitive societies, up to the metaphysical systems of modern philosophy and theology.[1]

A concern for salvation in this world and this life through the manipulation of institutional arrangements is not entirely new. This secular eschatology shares with other types of *Erlösungslehren* an essentially noncognitive, emotive-pictorial use of language and the commitment to a global strategy. It holds that redemption from evil cannot be assured by a piecemeal procedure of trial and error. The social order must be totally reshaped in order to achieve salvation. Deliverance comes through a force or a process which invariably destroys the inherited social organization, and thus opens the path to the New Jerusalem.

The theme is old and has been played in many variations; but the clash of ideologies permitted by an open society inevitably generates new conceptions. Among the products recently cast up we note in particular the *Manifesto of the Triple Revolution,* prepared by an Ad Hoc Committee for the Triple Revolution, and issued in March 1964 with an admirable sense for publicity. A variety of programs on radio and television have since been devoted to the diffusion of the Word. Articles in magazines and newspapers have similarly elaborated the message. In this article I intend to analyze the claims and proposals of the "Triple Revolution" group from the standpoint of economic theory, and then indicate some of the wider philosophical implications of this phenomenon.

The *Manifesto* opens with a declaration that "mankind is at a historic conjuncture which demands a fundamental

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[1] An excellent analysis of the structure of metaphysical conceptions can be found in Ernst Topitsch, *Vom Ursprung und Ende der Metaphysik* (Vienna: Springer Verlag, 1958). This analysis has a general bearing on the nature of non-cognitive belief-systems pervading our society.

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re-examination of existing values and institutions." The historic conjuncture results from "three separate and mutually reinforcing revolutions": cybernation, weaponry, and human rights. The *Manifesto,* however, barely mentions the last two, and concentrates on the cybernation revolution. It is claimed that the advent of complex computers, data-processing and self-regulating machines, creates an historical break in the evolution of social life. "A new era of production has begun. Its principles of organization are as different from those of the industrial era as those of the industrial era were different from the agricultural." The new machines, it is claimed, introduce a regime of unlimited productive capacity.[2] With cybernation, abundance has become a "fact"; scarcity is the result of obsolete institutions and inappropriate values. With abundance abounding, rationing and allocation mechanisms become redundant.

In the Marxist eschatology, the state was expected to wither away. Not so according to some prophets of the Triple Revolution. The economic organization is expected to vanish, but the state will absorb society.[3] While paradise could (almost?) immediately be achieved, inherited institutions and values prevent its realization. An economic organization based on private property and guided by market price signals converts the impact of cybernation into rising poverty, expanding unemployment, and corrosive "alienation of man." The new machines displace people in droves, first from manufacturing industries and agriculture, and subsequently from the service industries. Man cannot compete with these machines. Poverty, therefore, expands and men become totally alienated from a hostile society. In the new era dominated by cybernation and automation, it has become impossible to achieve full employment in the context of a market economy. Fiscal policy may, admittedly, provide some transitory remedies; but they are of dubious value in alleviating the unavoidably growing unemployment.[4]

THE NATURE OF THE ultimate society remains strangely obscure, however. We seem assured that it will be a Good Society which will have exorcised the curse of alienation brought on by a market system of economic organization. There is, however, no discussion of the institutional arrangements of the new society of abundance which will have vanquished

2 This assertion is frequently repeated in elaborations of the theme. Gerard Piel states, for instance, that $200 billion of Gross National Product "is going unconsumed." This remarkable assertion is obtained from the statement that there are 20 million families "whose level of life is something like three or four thousand dollars short of what our society has come to regard as a minimum scale"; see *A Conversation: Jobs, Machines, and People* (Santa Barbara, Calif.: Center for the Study of Democratic Institutions, 1964), p. 4.

3 The reader may find the following references illuminating: "If all of us are going to be provided with enough to go around, rationing isn't necessary any longer." (Statement by Robert Theobald, *ibid.*, p. 21. Michael Harrington discusses in another publication the existing prospects of Utopia. The vanishing of all economic problems in Utopia is characterized in a manner which creates the definite impression that this event is feasible and worth exploring as an achievable goal. The discussion appears in *Cacatophia and Utopia* (Santa Barbara, Calif.: Center for the Study of Democratic Institutions, 1965). The point is particularly clear when we read (on p. 24) about "intellectuals...willing to sacrifice and struggle to create Utopia or a decent society." On p. 10 of the same *Conversations*, W. H. Ferry asserts that "we have entered a society of abundance, and economy of plenty, as against our former economy of scarcity."

4 The consequences for unemployment have been elaborated fulsomely. A sample may be noted here: Theobald states that until the new era, "more and more people were rising out of the poverty level....But today we are moving into a situation where people are being thrown out of the abundant society." *Jobs, Machines, and People*, pp. 4-5. Piel, never to be left behind in the supply of impressive assertions, formulated a law of worker displacement as follows: "...the displacement of workers in both white-collar and blue-collar functions is proceeding at an exponential rate, that is, proceeding at the square of time." Mr. Piel concedes that the operation of his law is somewhat offset by a growing popula-

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the Satan of Scarcity. One point only emerges with clarity: The vanishing amount of labor required to assure abundance suggests that any connection of income with productive effort is totally obsolete, and in a "deeper sense" immoral. Incomes must be disbursed independent of productive contribution.

Instead of a description of institutional arrangements and of their manner of operation in the new society, we are offered tortuous debates on the New Morality required for a society which radically dissociates income from productive effort. The agonizing discussions about the inappropriateness of inherited moralities yield no enlightenment concerning the mode of operation of the new society. It is not clear whether *any* income whatsoever may be claimed by the individual eager to share abundantly in the abundance, or whether a limited income is assigned to every member of society "according to his needs." The vague references which may be culled from pamphlets suggest the second interpretation. Should this be correct, one wonders about the justification for such limited allocations in the midst of "unlimited" plenty.

We are, however, provided with somewhat more information concerning the transition from the old to the new order. Massive government programs and a massive expansion of the government sector and government activities are necessary to alleviate "the physical and psychological miseries" created by cybernation in a market system. The key word is definitely "massive," whether it pertains to public education, public works, low cost housing, rapid transit systems, or public power systems. Among the etcetera may be noted income redistribution through taxation (on a massive scale, of course); and extensive use of licensing, and minimum wage laws are also proposed. In summary, the *Manifesto,* supplemented by individual elaborations and comments offered by its propounders, casts a "cacotopian" gloom over contemporary society and its economic organization, and reveals the promise of a Happy and Good Society achievable through radical social engineering and an appropriate reshaping of moral values. It also traces suggestive outlines of a program to alleviate the pains of transition.

Many people no doubt find the arguments used to support the *Manifesto's* approach appealingly plausible. The impact of new machines on the workers directly affected appears quite simple and obvious. Such impressions, however, possess a most ambiguous significance. For many centuries they confirmed that nobody could live on the other side of the earth, and it seemed just as obvious to most men that the sun revolves around the earth. The history of many sciences clearly shows that impressions must be carefully distinguished from observation reports. Impressions transcend a mere recording of observations in that they contain interpretative conjectures

tion, which mysteriously raises aggregate demand for output. This increase thus absorbes a portion of the displacement. He continues, however, to emphasize that "the problem is the enlarging gap between the employed labor force and the more rapidly increasing size of the labor force as a whole." Employment may still rise for a few years, but "within a decade employment is going to level off and begin to fall." (*ibid.*, p. 10) Other statements supplied by the group suggest that unemployment has already begun to rise: "I accept the fact that full employment at this junction in time is a misleading goal if by full employment is meant the traditional kind of jobs in the private market — a market that has filed in the last five years to produce the kind and number of jobs necessary." (Holstein in *ibid.*, p. 15). And lastly, we may consider the central "facts" adduced by the *Manifesto*, p. 7: "(a) the rate of productivity increase has risen with the onset of cybernation; (b) an industrial economic system postulated on scarcity has become unable to distribute the abundant goods and services *produced by a cybernated system or potential in it;* (c) surplus capacity and unemployment have thus coexisted at excessive levels over the last six years; (d) the underlying cause of excessive unemployment is the fact that the capability of machines is rising more rapidly than the capability of human beings to keep pace; and (e) a permanent impoverished and jobless class is established in the midst of potential abundance."

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bearing on the observations noted. Consequently, they provide no evidence for the underlying and hidden theoretical notions. Moreover, the psychological sense of conviction accompanying such implicit interpretations cannot possibly establish their truth. The history of man's knowledge supplies many examples demonstrating the inadequacy of the most convincing, most obvious, and most plausible impressions of our environment. A critical examination of the ideas which the *Manifesto* advances with an overpowering sense of urgency for immediate radical action thus acquires considerable importance. That such an examination can only be conducted by means of technical economic theory is due to the nature of the subject matter. I shall proceed in this manner with some reluctance, since I feel certain that my treatment is destined to receive much less attention in the popular press than did the *Manifesto of the Triple Revolution.* Yet in the last analysis, after all, it is through economics and not prophecy that we can come to the truth in this matter.

THE EXISTENCE OF "idle" resources has often been observed in both market and non-market economies. On this point, the two types of economic organizations do not differ. They do differ, however, in the manner of occurance and the appropriate interpretation of the phenomenon.

The market process releases signals in the form of price movements which reallocate resources and output. If information about evolving market structures and the reallocation of resources were available without cost, resources would move instantly in the directions determined by the changes in demand and supply. In the context of a "full-information world" with no adjustment costs, economic resources would never be "idle," and markets would always be cleared. But this is not our world. Information must be produced, or gathered, at a positive social and private opportunity cost. Resources with alternative uses must be invested to collect, evaluate, and comprehend information about market positions. The more information one requires, and the more rapidly one wishes to collect a given amount of it, the greater will be its cost. Similarly, the readjustment of inherited resource-utilization patterns also necessitates a specific allocation of resources with alternative uses. Readjustment involves costs, which rise with both its magnitude and its speed.

Once we recognize the crucial role of the costs of information and adjustment, we can arrive at a more intelligent understanding of the nature of the market process. Idle resources will then appear as a rational attempt to minimize the costs of information and adjustment in the face of shifting demand and supply patterns. Consider, for instance, the position of a landlord having lost some tenants and being left with a number of vacant apartments. There is always a sufficiently large reduction in the rent which would lure new tenants immediately. Nevertheless, landlords rarely choose this option. The likelihood of his taking this action would be substantially greater if the landlord could immediately terminate the tenure of provisional low-rent tenants. But this action is precluded by the tenants' behavior. They insist, as a rule, on some minimal period of assured tenancy. This behavior is a consequence of the readjustment costs noted above. If readjustments imposed by others proceeded without inconvenience, i.e. without cost, tenants would be indifferent between two apartments differentiated only by the existance or absence of an advance notice before having their lease cancelled. The existence of readjustment costs thus induces tenants to prefer contracts requiring advance

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notice and preferably longer advance notice. This latter condition is due to the greater costs of readjustment when it must be done at greater speed. Under these circumstances the landlord will reject the option of immediately luring a tenant by lowering the rent. The market has informed him so far that he can rent the apartments at the accustomed prices. He has at the moment no information which would rationally justify a lowering of his rents.

Keeping an apartment vacant, coupled with a continuous sampling of the market and calling information to the attention of potential buyers, thus forms an alternative to immediate and large rent reductions. Both alternatives involve costs: the direct purchase of other resources (advertising, real estate agents, etc.) or the allocation of one's own resources (showing customers around, etc.). The latter includes most particularly the cost of the immediately available lower revenue foregone by holding the apartment vacant. The resampling of the market yields, on the other hand, information on the maximum price obtainable. The more a supplier samples the market, the greater is the probability that he will find somone willing to pay a higher price; and the higher this price, the greater the return for the landlord. The returns diminish, though, as the period of resampling and information distribution lengthens. On the other side, the marginal cost of information persists or may even increase; and so the landlord will reach a point where he will maximize his profits. A bargain is struck at the best price sampled at the moment. Under this wealth-maximizing action, however, emerges an unused, an "idle" resource, viz. vacant apartments. Yet simply to call these apartments "idle resources" is dangerously misleading. It conveys an impression of functionless, useless, and inefficient waste; and this is not necessarily the case. Vacancy emerges from a rational use of resources in the face of incomplete information and substantial adjustment costs. Holding apartments vacant implies, under the circumstances indicated, a more economical usage of resources, in response to the relevant operation of informational and adjustment costs.

THE SAME FORMAL analysis applies to any asset, as, for example, labor. The workers' search for jobs and the employers' search for employees, the collection of information about jobs and employee characteristics, do not proceed without substantial costs. Moreover, the adjustment of the supply of labor services to the range of new job opportunities is not costless; neither is the hiring and firing of employees. A discharged worker could always find a job, quite immediately, at a sufficiently low wage. Yet if the market indicated up to the time he was discharged that he could reasonably expect to find jobs at accustomed conditions and the inherited wage, he would reject the option of an immediate job at lower wages and prefer to sample the market through appropriate search activities. The search would involve costs of various types, foremost of course the potential wage forfeited by remaining unemployed and searching for a job of the same type and wage as the old. The nature of the prevailing relief and unemployment benefit systems modifies this cost, and thus affects the outcome substantially. This sampling of the population of potential buyers of labor services supplies the unemployed worker with an expanding volume of information. If the market situation for his general skills is fundamentally unchanged, the repeated resampling yields a rising maximal wage offer. The rate of increase diminishes, however, with repeated sampling; and the worker will accept employment when marginal adjustment and inform-

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ation costs (modified by benefits) threaten to exceed the expected increment in the maximal wage offered.

The market situation may, however, change fundamentally during a worker's search for one of two reasons: either because a change in the general supply conditions has permanently lowered the relative demand for his special skills, or because the aggregate demand for output is falling. In the first case, the information collected through persistent resampling of the market will always disappoint the worker. The low wage offers experienced will induce him eventually to readjust his anticipations and, consequently, his labor supply decision. This readjustment presents him with a choice between two courses of action: either to accept employment at substantially lower wages on the basis of unspecialized skills, or to invest some resources (and thus incur additional costs) in order to acquire new skills. In either case, he will eventually find employment — after possibly a substantial revision of anticipations and matching reservation prices.

In the second case, a different situation emerges. The initial anticipation level and reservation price of the discharged worker correspond to the information previously available through his employment. The unemployed worker thus samples the market with the anticipation of finding a similar job at the accustomed wage. But while he slowly acquires information, aggregate demand declines and thereby changes the phenomena sampled.

The maximal wage offers fail to rise in the manner expected and may even fall. Anticipation-level and reservation price will gradually be adjusted downwards, in the absence of legal or institutional constraints. Nevertheless, they will lag behind the decline in aggregate demand. An indefinite period of unemployment will eventually be absorbed as soon as the aggregate demand stablizes, even without a subsequent increase, though such an increase would be a necessary condition for absorption of unemployment in the case where institutional constraints prevent a downward adjustment of wages. Otherwise, this increase in business activity *accelerates* absorption.

THIS OUTLINE OF AN economic analysis of unemployment may be summarized in the following manner: Unemployment is broadly determined by: (a) the nature of the costs govering information gathering and adjustments in the types and directions of the labor supply (relief and benefit systems and opportunities for choice between employment and non-employment activities may play a crucial role at this point); (b) the magnitude and frequency of relative shifts in demand for products; (c) the magnitude and frequency of shifts in the supply conditions of product markets, particularly in the underlying technology shaping production; and (d) the comparative variability of aggregate demand for output. It is the variability relative to the prevailing speed of information diffusion and the associated adjustment speed of anticipations and reservation prices which actually matter in this context.

It follows from these considerations that larger marginal adjustment costs, smaller marginal information costs, and large and frequent demand shifts compounded by an accelerating technological impact on production tend to raise the average level of unemployment generated by the market process. Furthermore, the larger the relative variability of aggregate demand for output, the larger are the fluctuations of unemployment around its average

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as determined by the above set of factors.[5]

The analysis outlined above, based on general economic theory, provides an interpretation of unemployment. It also determines a balance of social costs, the social cost of unemployment juxtaposed with the social cost of lowering average unemployment or holding its level below some ceiling. One may also use this analysis to investigate the nature of institutional arrangements which contribute to reduce both types of costs and, most particularly, assure a continuous close balance of the types of costs.[6] Moreover, we can extract some general information from this analysis about the impact of cybernation on the level of unemployment. The effect of cybernation essentially coincides with the broad pattern of consequences emanating from new technologies observed over a long period in the past. *It will effect the level of unemployment only in the cases where cybernation involves an accelerated rate of technological innovation. In addition, it would require a continuous acceleration in order to raise the average level of unemployment persistently.* So far the balance of evidence assembled by investigators of technological innovation yields little support for the assertion that innovation has been accelerated and definitely no support for the expectation of a *continuous* acceleration. This finding does not deny the existence of substantial social readjustment costs associated with the impact of cybernation; and one might legitimately raise the issue of the proper distribution of these costs. One could reasonably expect that cybernation would sharpen the wage differential between skilled and unskilled, and within the skilled group itself shift the balance of wages and employment conditions in favor of the professionally better educated. The readjustment costs and the differential impact on labor types will occur, however, independently of the level of unemployment due to the rate of acceleration of the cybernation process. Our analysis cannot be understood therefore to imply a smug indifference. It emphasizes, on the contrary, the importance of appropriate institutional arrangements designed to minimize the social adjustment costs associated with the continuous introduction of new technologies. Economic analysis can even be usefully applied to clarify the consequences of various arrangements for distributing these costs among different groups of our society. No rational choice among these arrangements can be made without careful application of this underlying analysis.[7]

THIS ANALYSIS, BASED on validated economic theory, yields no "paradox of poverty amidst abundance" nor

5 The above analysis implies that the economic process continuously operates to absorb into employment the labor force supplied. Two major implications follow: (a) over the long-run, employment and employment potential move closely together; and (b) the length and magnitude of an expansion is correlated with the length and depth of the previous contraction. The first point has been emphasized by A.C. Pigou and the second particularly by Milton Friedman. The reader may be usefully reffered to the textbook by A.A. Alchian and W.R. Allen, *University Economics* (Belmont, Calif.: Wadsworth Pub. Co., 1964), chap. xxxi, p. 546. This chapter presents an excellent analysis of unemployed resources. My account has been strongly influenced by my discussions with Armen A. Alchian.

6 This formulation covers an attention devoted to monetary and fiscal policy designed to remove the pronounced accelerations or decelerations in aggregate demand (relative to the speed with which information is circulated) which has generated all major fluctuations in unemployment.

7 My survey of "A Highly Miscellaneous and Imperfect Bibliography of the Triple Revolution," prepared by W. H. Ferry, yielded no indications or references to an analysis comparable to the analysis supplied by contemporary economic theory. Oral discussions with various signers of the *Manifesto* supplied no references to any analysis or evidence about the "change of the world." One signer admitted upon repeated questioning by Allen Metlzer that he had not analyzed the problem; but then, he simply *knew* that the world had changed.

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any general erosion of employment opportunities. The *Manifesto of the Triple Revolution* is quite correct in its assertion that economic analysis denies such "paradoxes" and gloomy predictions. One might have reasonably expected, therefore, that the *Manifesto* would present (or refer to) an alternative analysis of economic processes, combined with a careful assessment of the relevant evidence which would enable us to appraise the comparative validity of the conflicting theories. At this point, however, an astonishing fact emerges. The prophets of the Triple Revolution have simply failed to provide any such alternative theory. Analysis appears to be replaced by the assertion that the structure of the world has fundamentally changed. As a result of this unspecified historical break, expanding poverty and rising unemployment are the necessary consequences of the patterns of innovation presently at work. Nevertheless, "observations" are adduced apparently as evidence in support of the non-existent analysis. The following are statements culled from the *Manifesto*: [8]

762

(1) It is noted that productivity per man-hour rose at an average pace above 3.5 per cent since 1961. This acceleration of productivity is attributed to the impact of new machinery.

(2) Prices of machines replacing labor are low compared to the annual wage of the replaced worker.

(3) It is increasingly more difficult to create the increment in aggregate demand necessary to absorb the growing labor force into employment.

(4) Unemployment rates averaged 5.7 per cent in the earlier 1960's. Teenage unemployment has risen steadily, and minorities exhibit a comparatively high unemployment rate.

(5) Nearly 4 per cent of the labor force sought full-time work in 1962 but could find only part-time jobs.

(6) Many men and women stopped looking for employment and withdrew from the labor force. It is reasonable to estimate that over 8 million people are not working who would like to have jobs today as compared with the 4 million shown in the official statistics.

(7) The number voluntarily withdrawn from the labor force is continuously increasing.

(8) Labor force participation rates are declining.

(9) The stablization of the unemployment rate at 5.5 per cent does not reflect the market's absorption of labor into employment but rather withdrawal of discouraged would-be workers from the labor force.

(10) During the period 1957 to 1962 more than half of the new jobs were created in the public sector. The private sector almost ceased to create new jobs, with the exception of the service industries.

THE STATEMENTS listed above contain a weird mixture of interpretative assertions, vague conjectures, and observations. Some of the statements have simply no bearing as evidence for the *Manifesto's* thesis, but instead contribute to an appropriate psychological receptivity on the part of unwary readers (including the signers of the *Manifesto*?). This applies particularly to points (1), (2), (4), (8), and (10). All these points are quite consistent with an explanation based on the previously developed analysis of no discriminating evidence and thus no support for the *Manifesto's* central thesis. It should be noted, in particular, that the unemployment patterns alluded to under point (4) are quite closely associated with the repeated extensions of minimum wage laws and the rise in minimum wages. Economic analysis implies that both the extension and increase in minimum wages will raise the unemployment rate of teenagers and of the least skilled workers. It is especially Negroes, therefore, who are unfavorably affected by the legisla-

[8] I found almost no useful material bearing on this aspect in supplementary writings.

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tors' desire "to help the poor."[9] Similarly, the observed variations in the growth rate of labor productivity can be explained within the framework of economic analysis. Neither recent growth rates nor observed accelerations assume levels significantly different from past cyclical experiences. Moreover, the growth rate declined somewhat in the past year and the current year compared to the levels reached in the earlier expansion phases. These observations yield little support, indeed, for the *Manifesto's* thesis of a revolutionary breakthrough.

Point (2) deserves some further attention. The statement, while emotively suggestive, is almost meaningless. Information about the machine price relative to the annual wage is not sufficient to yield implications bearing on our issue. And point (3), of course, is not an observation: It remains a sheer unsupported conjecture suggested by the retardation of the economic process over the period 1957 to 1961 compared to the movements before 1957. The sluggish retardation of the 1950's has been replaced meanwhile by a surging and maintained expansion. Both retardation and subsequent acceleration, nevertheless, require an explanation.

The upswing, beginning in 1949 and ending in the summer of 1953, was supported by a substantial monetary expansion. As a matter of fact, the growth rate of the monetary base (i.e., the volume of high-powered money issued by the Federal Reserve authorities) accelerated until 1952 and moved to levels not reached since 1945. The resulting surge in aggregate demand continued to lower unemployment rates even beneath the typical sharp decline accompanying the first phase of an upswing. A different pattern emerged with the upswing beginning in the late summer of 1954. The initial acceleration in the monetary base was suddenly broken in 1955 and its subsequent growth rate was held to a comparatively low level and even declined gradually during 1957. Some indications suggest that money demand contracted over the middle 1950's. This fall contributed to maintain the initially acquired momentum for some time in spite of the retardation in the base.[10] Still, the pronounced deceleration of the monetary base probably weakened somewhat the movement of aggregate demand. Unemployment declined sharply for some months but resisted further erosion after that. The next cyclic period, beginning in early 1958 and terminating around the middle of 1960, was characterized by a pronounced acceleration of the monetary base followed by a remarkable deceleration. The early acceleration contributed to prolong the rapid decline of unemployment rates from their peak until the turn of the year 1958/59. But the sudden deceleration obstructed absorption of unemployment beyond this level. Unemployment thus rose at the beginning of the downswing from a higher low point than before. Furthermore, the sharply restrictive monetary policies were not attenuated by changing demand factors which contributed to raise the velocity of spending. The period from 1957 to 1961 may very well be characterized as a time of comparative monetary restriction. This

9 Many well-meaning people are deeply offended when informed of this effect of minimum wages. The offense is frequently so great that analysis and evidence are simply disregarded. Emotive commitments easily dominate cognitive commitments. This behavior is, however, closely associated with a pervasive misconception, viz., that moral judgments are a sufficient condition for policy actions. The role of analysis, of a necessary knowledge about the structure of social processes, seems to escape the professional moralizers. One could reasonably argue that proper cognition also deserves a moral obligation. If one accepts this obligation one will wonder about the singular immorality of the professional moralizers who implicitly deny this particular moral obligation. Is it because it is too dangerous and inconvenient?

10 The reader may usefully consult the chapters on postwar velocity in the superb book by M. Friedman and A. J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: National Bureau of Economic Research, 1963).

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monetary restriction differentiates this period from both the early postwar adjustment phase (1945 to 1949) and the first post-adjustment phase (1949 to 1957). The monetary restriction resulted in higher unemployment, a serious retardation of employment in the private sector, and sluggish movement of production and Gross National Product. Monetary policy was however decisively reversed in 1961. There emerged the longest acceleration in the monetary base ever observed and attributable to Federal Reserve action since the Federal Reserve started operations in 1914. Moreover, this acceleration pushed the growth rate of the monetary base to levels not observed since the war. This remarkable monetary expansion gradually and persistently lowering unemployment rates, contrary to the "cacotopian gloom" of the Triple Revolution, was also accompanied by a rapid expansion of production. Gross National Product, and even employment in the private sector.

The comparative stagnation of employment in the private sector from 1957 to 1961/62 was thus a consequence of a severe monetary restriction. If this stagnation had been the first symptom of the cybernation revolution, as suggested by the *Manifesto* and its supplementary elaborations, then the subsequent movements of private employment and unemployment could not have occured. Yet they did occur and they were the natural outcome of a historic monetary expansion most admirably engineered by the Federal Reserve authorities. [11]

UNDER THE STIMULUS of an appropriate monetary and fiscal policy, the market process created ample opportunities for employment. The relevant development may be usefully sketched with the aid of the comparative movements of *employment* and *employment potential.* The latter describes the "portion of the total population which is of approximate working age." [12] Such a comparison is particularly pertinent for the appraisal of points (6) and (7) mentioned above. These assertions made by the *Manifesto* would merit attention if the population's employment potential grew substantially more than actual employment. Morover, the *Manifesto's* case rests chiefly on an accelerated divergence of employment and employment potential since the turn of the decade. From 1948 to 1964 total population at working age (twenty to sixty-four) rose at an average rate of 0.9 per cent, whereas employment rose at an average rate of 1.07 per cent. "Since April 1961, while total employment has increased at a 1.7 per cent annual rate, population aged twenty to sixty-four is estimated to have increased at a rate of about 1.1 per cent per annum, and population aged eighteen to sixty-four increased at a 1.3 per cent rate. [13] Thus, it follows that, contrary to the assertions trumpeted in the *Manifesto,* jobs and employment have been growing more rapidly than the population of working age. The assertions made by the Triple Revolution group simply have no basis.

11 The observations noticed expose the falshood of point (9). First, the unemployment rate was not stablized at 5.5 per cent, but fell gradually. Secondly, if unemployment rates had been kept from rising by the withdrawal of "discouraged and defeated" workers from the labor force, one would expect employment — particularly private employment — and the labor force to be stationary. All three magnitudes rose persistently, however; and the statement under point (9) is quite untenable.

12 This quote and the material summarized is from the *Federal Reserve Bank of St. Louis Review,* XLVI (Oct. 1964), 1-4.

13 The assertion under point (6) that 8 million people would like to work in addition to the 4 million officially reported to be unemployed is almost fantastic. There is not even a hint of a suggestion how this figure is "reasonably estimated." Neither is there even a clue to an analysis which determines such "reasonable" estimation. Furthermore, my survey of the literature yielded no material elucidating this assertion.

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Observations on the relative participation of various population groups in the labor force yield additional information bearing on the relevance of the *Manifesto's* ideas. The participation rate of males in the labor force declined from 84.5 per cent in 1947 to 78.6 per cent in 1964. The participation rate of females rose on the other hand from 31 per cent to 37.4 per cent over the same period. The observation makes little sense if one believes that machines remove workers from the labor force and that service industries are increasingly exposed to the calamity of cybernation.

Still there remains the decline in the participation rate of males. How is this to be explained? It is important to recognize that this decline results from the falling participation rates of two specific age groups. Males between fourteen and nineteen years lowered their participation rate from 54.3 per cent in 1947 to 43.6 per cent in 1964, and males sixty-five and over lowered their rates from 47.8 per cent to 28 per cent over the same period. A slight decline can also be found for the age group fifty-five to sixty-four. The other age groups show either no significant change or even a slight increase. Moreover, there is no indication of any break in the participation of the middle group in the labor force. The assertions listed under points (5) and (7) simply do not hold for the central core of our working age population.

But what about teenagers and the oldest group? Do they not confirm the claims of the *Manifesto*? The answer is, No. Cybernation cannot be used to explain the peculiar pattern of evolving participation rates. The wholesale destruction of jobs under the Cybernation Revolution would create a random pattern of discouragement and defeat involving also the broad range from twenty years to fifty-five years. It would also affect the females over twenty years, whose participation rates have all been rising. What actually occurred is that considerable extension of the Social Security system, of pension plans and associated devices, expanded income outside of employment for older age groups. This gradual change in opportunities modified the comparative advantages and disadvantages of retirement and induced a growing number of older people to prefer a retirement status. It should be noted however that this process operated only on the male worker and is only reflected in the male participation rates. Our argument does not apply to the females, and we do observe that their participation rate in the age group fifty-five to sixty-four rose by 66 per cent from 1947 to 1964 and even increased slightly for those sixty-five and older. Once more, this movement yields no support for the thesis of wholesale and widely ramified job destruction through cybernation.[14] The decline of teenage participation also can be understood as a response to peculiar institutional changes and expanding wealth. Expanded schooling has created opportunities for additional education, and increasing income has enabled families to exploit these opportunities. Repeated extentions of the minimum wage laws may also have contributed to the withdrawal of teenagers from the labor force and induced them to stay longer in school.[15] Moreover, the decline in the teenagers'

14 A survey article prepared by Jacob Mincer adduces some noteworthy observations which bear on the interpretation of the decline in the participation rates of older men. "In 1951, 22 per cent of retired claimed layoffs as a cause of retirement; only 9 per cent claimed it in 1963." Moreover, "compulsory retirement age was quoted by 22 per cent recently, compared to 11 per cent in 1951; poor health by 35 per cent, compared to 41 per cent earlier; and preferences for leisure by 17 per cent, compared to 3 per cent in 1951." *Labor Force Participation and Unemployment: A Review of Recent Events*, unpublished manuscript.

15 The reader may find the following passages from Jacob Mincer's manuscript illuminating. The age group fourteen to seventeen "had particularly severe declines during three cyclical troughs, as well as from fifty to fifty-one, fifty-five through fifty-seven, and sixty to sixty-one. The latter...and two former declines coincide

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participation rate is a long-run phenomenon and exhibits no acceleration in the last five to ten years. This observation again is difficult to reconcile with the claims advanced by the *Manifesto*.

THE PECULIAR assertions listed under points (5) and (7) possibly refer to the existence of "disguised unemployment." This phenomenon is associated with the cyclical sensitivity of the labor force, i.e., the partial dependence of the labor force on aggregate demand. It follows therefore that reported unemployment understates the actual loss in employment occurring during a downswing. The disguised loss of employment has been estimated in several ways. Moreover, it has been suggested on occasion that reported and "disguised" unemployment are both components of some complete measure of employment loss. A more careful examination, based on economic analysis, renders this conception very dubious. The additivity of the two groups appears in the context of an argument which postulates that absorption of labor into employment from either group occurs at approximately equal net levels of marginal productivity; and most particularly, the marginal productivity of the unemployed in either group is supposed to be zero. This assumption is very doubtful, indeed. A growing number of people possess a meaningful choice between employment and non-employment activities, and in the marginal productivity (or marginal utility) of these non-employment activities may be quite substantially above zero. The relevant attraction of such non-employment activities is mirrored in the large turnover of participants in the labor force. An average participation ratio of 50 per cent does not mean that 50 per cent of the population is always in the labor force and 50 per cent is never in the labor force. There prevails a frequency distribution of participation time. Some people participate more continuously, others much less, and the resulting average over a given period yields 50 per cent. But this very behavior reveals the existence of attractive alternatives to employment activities. The positive marginal productivity of non-employment activities existing for a number of groups implies that the opportunity costs of job-searching and job-assessment (i.e. the costs of information) are quite sizeable. It follows therefore that "the net gain from moving into the labor force and the net loss from leaving it... can be quite small" for this group of people. The existence of non-employment activities with positive marginal productivity determines a pronounced supply elasticity with respect to market conditions — changing market conditions induce substitutions between employment and non-employment activities. Under these conditions, merely adding together reported and "disguised" unemployment misconceives the nature of productive labor. Additivity also misconstrues and badly exaggerates the loss in welfare terms. The opportunities for non-employment activities are particularly relevant for the so-called secondary labor groups, which include a good portion of the females, and the older and single males. The behavior of this secondary group confirms our supposition: The labor force participation of this group is remarkably responsive to employment conditions. The substitution elasticity between employment and non-employment conditions of this group induces a sensitive shift in time allocation between employment and non-employment activities. This analysis of "disguised unemployment"

with Federal increases in minimum wages and the extension of coverage. Since 1956 this group had a drastic increases in unemployment with little change afterward. ...Supporting evidence for the probable role of minimum wages in the labor market experience of this group is provided in a regression analysis of teenage unemployment by Arnold Katz...."

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eliminates the *Manifesto's* assertions listed under points (5) and (7) from further consideration until some analysis worthy of attention is supplied.

Unemployment data mean very little by themselves; they require careful interpretation, and only analysis supported by relevant evidence yields a reliable interpretation. The movements of unemployment figures must be considered within the context of shifting patterns created by a changing and expanding economic system. This applies especially to the interpretation of the apparent growth of unemployment since the early fifties. No doubt, unemployment rates during the 1958 recession exceeded the unemployment rates during the 1954 recession. Similarly, unemployment rates during the upswing initiated in 1958 exceeded the unemployment rates during the expansion of 1954 to 1957. During the recession of 1961, however, unemployment rates were lower than at the previous low point and were also lower than during the recession of 1949. In addition, unemployment rates in the autumn of 1965 were close to unemployment rates in late 1948. This evolution in employment rates yields little support for the apocalyptic assertion of a total discontinuity in the nature of the economic process occurring around the turn of the decade. On the other hand, there exists some evidence suggesting that average unemployment rates will gradually rise with increasing affluence given our values and institutional arrangements. Increasing wealth raises the demand for schooling and also the demand for leisure. More extensive enrollment in schools induces a lower labor force participation of younger people, while Social Security arrangements and pensions exert a similar effect on the older age groups. The decreasing labor force participation of these groups reveals itself predominantly through an increasing proportion of intermittent work, increased labor turnover, and an increased proportion of inexperienced workers among both employed and unemployed. These trends are reinforced by the growing participation of women. The range of relevant tradeoffs between employment and nonemployment activities will continue to grow. This change in the structure of employment is a natural response to expanding opportunities and not a symptom of impending catastrophe. Slowly rising unemployment rates are therefore not a harbinger of growing and entrenced poverty but the epiphenomenon of deepening affluence and a broader range of relevant choices. Should this argument be supported by subsequent analysis and evidence we would conclude that *unemployment rates of the primary group consisting of males between twenty-five and fifty-four years of age provide a much better index of the unemployment situation.* This central core group probably reflects the movements of "involuntary unemployment" much more reliably. Interestingly enough, these data substantially refute the dismal projections of the *Manifesto of the Triple Revolution.*

16 The passage in the text is also based on the manuscript by Jacob Mincer previously mentioned. We may again usefully quote from this manuscript: "Given some scope for timing of their activities, work in the labor market will be preferred at times when search costs are low and job conditions attractive....The optimization of timing of labor force activities creates the illusion of disguised unemployment. The more economical the timing, the larger the number of disguised unemployed.... The paradox simply reflects the myopic preoccupation with GNP, when broader considerations motivate behavior."

ECONOMIC ANALYSIS yields no case for the Triple Revolution. Of course, the Masters of the *Manifesto* were aware that "conventional analysis" denies their assertions, so they

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have dismissed economic analysis.[17] It is quite clear, however, that they fail completely to understand the nature of this analysis, why it rejects their assertions, and on precisely what grounds. They provide no critical examination of any empirical theories supported by economics nor any reference to such examinations; nor do we find a comparison of the merits of received economic theories, which have successfully explained observable phenomena, with a carefully and explicitly constructed alternative theory justifying their contentions. Similarly, any careful analysis of the institutional arrangements which are suggestively proposed in order to ease the pain of transition is completely absent. The behavior patterns and the consequences which may be expected to arise from these proposed arrangements pose a serious problem both for the general welfare and for the survival of an open society. Even less is heard about the ultimate society of happy, just, and de-alienated abundance. They tell us nothing of the nature of such a society, of its institutional arrangements and its general mode of behavior. Are we supposed to infer the emergence of a millenium, a paradise maintained for "humanized man" with "creatively adjusted highest values"?

The fundamentally metaphysical character of the whole Triple Revolution venture comes into focus in many details. Analysis and evidence are dismissed in favor of emotive phillipics — a play on words replaces analysis, moral agonizing and impressionistic references substitute for evidence. The play on the words "scarcity" and "abundance," for instance, provides an excellent example of the irresponsible misuse of language, of the surreptitiously emotive use of a pretended cognitive category. The economist applies the term "scarcity" to describe the relative limitation of an inherited resource situation in the context of a given technology. This limitation exists relative to the values pursued by individual members of a society. Scarcity is reflected in the circumstances that every allocation of resources to particular tasks involves a sacrifice of some other valuable tasks; and this fact continues to exist even with cybernation. No society of our empirical world will ever be able to extract from its resources a total satiation of the wants of every member of that society. The principle of scarcity continues to prevail even in very affluent societies. The prophets of the Triple Revolutionary paradise carelessly shift the meaning of their words from "abundance" as denial of the economist's "scarcity" to "abundance" as an emotive-effective description of a large and rising real income per capita. From such a confusion of concepts, only confusion can result.

A similarly effective usage dominates the term "facts." Direct observations, interpretive guesses, and wild conjectures are equally referred to as "facts." No doubt, facts may be hard to recognize; but not *that* hard, provided the difference between metaphysical speculation and empirical-rational procedures is maintained. The impresssionistic misuse of language, in particular, is such as to constitute a scandal. Innumerable examples of this could be adduced. Here is a brief sampler:

> ...people are increasingly outside ...our social structure. ...[18]

17 This dismissal is not complete. It certainly applies to price theory, the explanation of market and allocation processes. However, the Masters appear to accept a somewhat naive version of Keynesian theory. On p. 6 of the *Manifesto*, military expenditures are presented as a "strong prop" of the economy. It appears that reductions in government expenditures would exert serious deflationary consequences independent of other policies, e.g., monetary policies. There is at present no evidence in support of such a position. The recently published Grand Debate in the *American Economic Review* LV (1965), 753-92, agrees at least on one point: the simple textbook versions of Keynesian-type theories, which apparently influenced the *Manifesto's* statement, may be safely shelved.

18 Helstein, *Jobs, Machines, and People*, p. 2.

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Vague allusions to scientists working for the joy of achievement appear sufficient to justify a totally new society which does not have to rely on wealth incentives.[19] And look at this hoary fallacy:

> In the society of scarcity, one man's well-being could be increased only at the expense of other men's well-being.... [20]

Michael Harrington pronounces that "the question of collectivism has been settled." [21] A survey of his writings shows, however, no analysis nor even a remote hint of relevant evidence supporting this claim. Or, catch this one:

> ...Technology is in charge and men are not in charge. [22]

And an absolutely delicious example:

> ...at precisely the moment all economic problems disappear... we would have a finished society in which men would die not from floods or plagues or famines, not from their own idiocies about the economy. They would die from death, and at that point the historical shell around the fact of death would be broken. For the first time society would face up to death itself. [23]

A favorite procedure of the group involves references to single examples to support far-reaching generalizations. This applies particularly to the relation between cybernation-automation and unemployment.

> The dislocation and disemployment that occur simply add the people to the twenty million families some of whom by now have had several generations living in this state. [24]

Or, we may read:

> But these sectors, which have been soaking up the disemployed from productive and extractive functions, are beginning to fail to soak them up. New jobs are *not* being created in these fields. [25]

Both statements are, of course, palpably false. The first implies that unemployment should increase at a rate equal to gross dismissals from work. This assertion is immediately rejected by observation. Piel's contention cannot survive exposure to observations on the movement of employment in non-manufacturing activities outside the government sector.

THE IMPRESSIONISTIC misuse of language is particularly reflected in a persistent confusion of value statements and cognitive statements. The proper separation of the two types of statements has been painfully slow in man's history, and the distinction is often felt to endanger most of man's elaborate constructions for orienting himself in a manner satisfying to his psychological needs. The logical clarification of these statements has therefore encountered deep-seated hostility. The careful separation of value assertions and theoretical statements forms, however, an absolutely crucial precondition for any progress of knowledge. This does not preclude their interaction in the analysis of rational action; but the explicit recognition of the mutual spheres of value assertions and cognitive statements exhibits the logical impossibility of deriving factual statements or even policy statements from value assertions only.

A major consequence of the tangled confusion involving valuations and theoretical statements deserves particular attention. As human beings, we do not respond at random to the various types of statements. Reactions to value judgements are much more pronounced than those to cognitive statements.

19 *Ibid.*, pp. 21-22
20 *Ibid.*, p. 23.
21 *Cacatophia or Utopia*, p. 8.
22 *Ibid.*, p. 12.
23 *Ibid.*, p. 21.
24 Hellstein, *Jobs, Machines, and People*, p. 5.
25 Piel, *Ibid.*, p. 6.

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This response pattern creates a surreptitious domination of value judgements over intellectual processes. A pervasive effect of the very language we use strengthens this pattern. The apparently autonomous existence of language induces a belief that since value judgements are articulated in sentences which exhibit the same grammatical form as cognitive statements, the two types of statements are of the same logical form. Cognition thus becomes irrelevant and even appears obstructive to the reformation of the world in the light of one's valuation. At the very base of the Triple Revolution is rejection of critical analysis; we can thus recognize a radical rejection of man's noblest achievement: his struggle, always endangered by entrenched ideologies, to respond intelligently to the challenge of his environment through a systematization of an ancient trial and error procedure.

An act of faith thus replaces the empirical assessment of human institutions; and the patiently piecemeal but reliable improvement of our lot is sacrificed to a dream.

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Agnosticism and Morality

HENRY HAZLITT

I THINK I SHOULD begin with a confession of faith — or lack of faith. I am an agnostic. Having made this confession, I think I should go on to say just what an agnostic is, and is not, and just what kind of agnostic I consider myself to be.

An agnostic is, first of all, a man who confesses his own ignorance — specifically, his own ignorance of the ultimate nature of the universe, of the ultimate destiny of man, of whether the universe has or has not a "purpose," and finally, of whether there is or is not a God or Supreme Being governing the universe.

It is possible to define an agnostic by two negatives: Although, on the one hand, he is not convinced of the existence of God, he is not certain of His non-existence either. A man who declares himself to be an atheist declares that there is no God. The agnostic replies that such a statement is mere dogmatism, and assumes knowledge and evidence that do not exist. Yet, there is a wide range of possible differences, intellectual and emotional, among agnostics; and I think I should explain just where I stand in that spectrum. An agnostic may merely be one who confesses his *personal* ignorance of whether or not there is a God. He may be willing to admit that perhaps others know, or *can* know, or at least that mankind may *someday* know. I should not blankly deny this last possibility, but I regard it as enormously improbable.

The human intellect is wonderful, judged by animal standards; it has recently shown itself capable of accomplishments that a highly intelligent man before the birth of Aristotle would have thought impossible, and, in fact, of accomplishments that would have amazed even Leibnitz or Newton or Darwin. Yet the human intellect is primarily an instrument for dealing with practical problems. While it is capable of amazingly abstract concepts, it can carry back the chain of cause and effect only for a finite and limited distance. This little animal brain, weighing three or four pounds, and these limited animal senses, were not evolved to comprehend infinite time or space, or the complexity of an infinite number of facts; or a First Cause.

The human brain has, of course, achieved wonderful results by inventing and manipulating symbols, as in mathematics; but these results, I think, lead us to deceive ourselves as to the true extent of our knowledge. Any man can *say* "a million," or "a billion," or a "hundred billion," and write down the symbols or perform various operations with them in a matter of seconds or minutes; but how many men can have

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a true conception of even a million —a million dollars or a million miles or a million anything else: As an economic journalist I have been stuck, in recent years, with how little impression it makes on people to tell them that we have a five billion dollar budget deficit, or that we have given away more than one hundred billion dollars in foreign aid.

The more a man knows, the more he realizes the extent of his ignorance, and the greater that ignorance seems to him. One of the most striking examples of this is Sir Isaac Newton, the greatest intellect of his age, and possibly the greatest that has ever lived: "I do not know what I may appear to the world," he wrote, "but to myself I seem to have been only a boy playing on the seashore, and diverting myself in now and then finding a smoother pebble or a prettier shell than ordinary, whilst the great ocean of truth lay all undiscovered before me."

772

I became an agnostic, as I remember, at the age of seventeen or eighteen; and I gave up my belief in God and human immortality painfully and reluctantly. Today my agnosticism is more thoroughgoing than it was then. I remember being for some time attracted by Herbert Spencer's concept of the Unknowable; but I later decided that Spencer knew too much about the Unknowable. He knew that it *was* unknowable; he seemed also to know just where the Unknowable began, and the exact dividing line between it and the Knowable. I decided that none of these things were known and probably could not be known.

Today I am not sure that I know even the meaning of the ultimate religious or philosophical *questions*, let alone the positive or negative answers. What is the meaning of the question: "Is there a God?" or "Is there a Supreme Being?" What is the meaning of the answer: "There *is* a God" or "There is no God"? How would we establish whether either answer is true? What sort of evidence would we look for to establish the truth or the probable truth of our answer? What necessary consequences would follow from the truth or falsity of either answer? What necessary difference, for example, would the truth or falsity of either answer make in our own earthly goals or our own conduct?

What sort of concept lies behind the words either of the theist or the atheist, "Do you believe in a personal God?" What is meant by "personal" in this connection? That God looks like a human being—like the God painted by Michelangelo on the ceiling of the Sistine Chapel, for example? That he is the size of a human being? Or twice the size? Or how many times the size? That he has a definite location in space—"in h e a v e n," for example? That he is "within us"? Like a microbe? Exactly what does this spacial metaphor mean, and is it consistent with belief in a "personal" God? Or does a "personal" God simply think or feel like a human being? Think with our limitations, or without them? Feel the way a person feels? But in what respect? Surely not in physical appetites, or in sexual drive, or in energy or fatigue, or in ambition or frustration, or in seeing the same things as beautiful, indifferent, or ugly—or in showing the same tastes and responses that make up at least nine-tenths of all human feelings and actions.

LET US ABANDON THESE insoluble problems and come to a problem that seems at first glance more soluble. Let us ask: How do, or how should, our intellectual answers—whether theism, atheism, or agnosticism —affect our *a t t i t u d e* toward the universe—our trusts and hopes and f e a r s, for ourselves or for mankind, our goals, our morality, our attitude towards each other? A large number of modern philosophers have concluded, in despair of knowing what to *believe,* that the essence or religion *is* simply such an attitude. I have myself been attracted by the statement of Gerald Heard, for example, that the essence of religion is a belief that the universe is friendly;

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but this attitude of trust in the universe, as regards its intentions towards mankind, rests on a belief. What is the ground or justification for this belief? To be sure, the universe has been friendly enough toward man *in the past* to make it possible for him to evolve, to multiply, to live longer, and to increase his material satisfactions enormously. What reason, though, do we have for assuming that this will go on indefinitely, that the earth will not grow cold—or collide with a comet or some other body? Hurricanes, tornadoes, floods, droughts, and earthquakes are, after all, a matter of annual occurrence, and seem to be entirely indifferent to our human hopes or prayers.

I have given time to confessing and explaining my reasons for doubt. I am not triumphant about my doubts. I am not eager to infect anybody else with them. I am not eager to undermine anyone else's religious faith. In brief, I am not eager to *argue* for my doubts; I am merely trying to explain them.

What I do wish to state, however, is my conviction that *one's belief or lack of belief on religious matters neither logically should, nor in fact does, affect one's actions, goals, and moral conduct to anything like the extent that is commonly imagined.* This conviction rests on both empirical and on deductive grounds. Those who are acquainted with the history of moral philosophy know that there is no sharp and consistent difference between the moral injunctions preached by the pagan philosophers and by the early Christian philosophers. There is no sharp and consistent difference between the "justice" of Socrates and Plato, between the "golden mean," the "temperance" and the "high-mindedness" of Aristotle, between the virtues preached by the Stoic philosophers, by Epictetus with his counsels to "endure" and "refrain," by Marcus Aurelius and his precept to "reverence the gods and help men" — and the virtues recommended by, say, Thomas Acquinas. In fact, as Henry Sidgwick reminds us: "The moral philosophy of Thomas Aquinas is, in the main, Aristotelianism with a Neo-Platonic tinge." And when Aquinas lists the moral virtues by which others receive their due, his list of such virtues, to the number of ten, "is taken *en bloc* from the *Nicomachean Ethics.*" [1]

It is not merely in moral philosophy, however, but in prevailing commonsense ethics, that we find, in spite of peripheral differences, a great central core of agreement in the moral codes of different nations and peoples and even of historical eras, notwithstanding fundamental differences in religion. Practically all widely-shared moral codes have been *against* domestic murder and violence, law-breaking, looting, banditry, theft, ingratitude, treachery, lying, promise-breaking, etc. Practically all such codes have been *for* law and order, domestic peaceableness, promise-keeping, truth-telling, loyalty, mutual aid, good manners, etc.; and all this for the simple reason that justice and morality are absolutely indispensable for the very preservation of society.

For the same reason, whatever different names they may have given to it, or whatever aspect they may have emphasized, all moral codes have implicitly recognized that the very function and goal of a moral code is, on the negative side, to prevent or minimize violence, conflict and strife; and on the positive side, to promote human well-being and happiness. The minimum goal of our moral rules is to avoid conflict and collision, to learn how to keep out of each other's way. In a wider setting moral rules are necessary so that we can all reasonably count on each other's statements, promises, and

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1 *Outlines of the History of Ethics* (1886), pp. 141-42.

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actions, so that we not only may avoid acting at cross-purposes but can co-operate with each other to promote our mutual welfare.

TOO MUCH TIME HAS been wasted in moral philosophy in comparing or contrasting the relative necessity and merits of "egoism" and "altruism." There is no basic conflict, but co-incidence and harmony, between the rules of action that would do most to promote the welfare of the individual and those that would do most to promote the welfare of society. One could hardly promote one without promoting the other, or harm one without harming the other. It is in the interest of every individual to live in an orderly, peaceful, secure, co-operative—i.e., a moral—society. Social co-operation is the heart of morality, and the means by which each of us can most effectively supply his own wants and maximize his own satisfactions.

Whether or not a man believes in God, he has exactly the same reasons for following the rules of prudential ethics. If he is an idler, a spendthrift, or a gambler, a glutton, a drunkard, or a drug addict, he will pay the same penalties for his sins in the one case as in the other. Whether or not a man believes in God, he has exactly the same reasons for obeying the traffic laws: they exist for his own protection as well as the protection of others, and if he violates them he takes the same risks with his own life as well as the same risks with the law. Finally, whether or not a man believes in God, he is likely to have the same sympathy with his fellow men, the same respect for their opinion, the same desire for their good will, and the same impulse to act decently towards them. "It is a curious assumption of religious moralists," once wrote Santayana, "that their precepts would never be adopted unless people were persuaded by external evidence that God had positively established them. Were it not for divine injunction and threats, everyone would like nothing better than to kill and to steal and to bear false witness."[2] The religious moralists who hold this view assume that those who do not believe in God are moral only because they are afraid of being caught. Yet their own argument also assumes that religious people are moral chiefly because they believe that God will reward them if they are, and punish them if they are not.

Those who are truly moral, in fact, whether theists, agnostics, or atheists, are so because they believe that virtue is its own reward, and sin its own punishment. They believe that good actions promote human well-being, including their own, and that evil actions injure others as well as themselves. In brief, whether we are Catholics, Protestants, Jews, agnostics, or atheists, we can agree on essentially the same moral code. If most of us, even if we are professed Christians, cannot always bring ourselves to love each other, most of us, religious or non-religious, can be brought to see the advantages of being decent and polite and even kind to each other.

Morality, in other words, is autonomous; it is not dependent on one's religion. As Stephen Toulmin has put it, writing from the standpoint of a religious man:

> Where there is a good moral reason for choosing one course of action rather than another, morality is not to be contradicted by religion. Ethics provides the *reason* for choosing the "right" course: religion helps us to put our *hearts* into it.[3]

Finally, as William James wrote: "Whether a God exist, or whether no God exist, in yon blue heaven above us bent, we form at any rate an ethical republic here below."[4] This, I think, is the best if not the only basis on which

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2 *Dominations and Powers* (New York: Scribners, 1951), p. 156.

3 *An Examination of the Place of Reason in Ethics* (Cambridge: Cambridge University Press, 1950), p. 219.

4 "The Moral Philosopher and the Moral Life," (1891), in *Pragmatism and other Essays* (New York: Washington Square Press, 1963), p. 223.

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it is possible for the religious and the non-religious to co-operate intellectually in moral, legal, and political philosophy.

This does not mean that any of us need abandon religious or ontological speculations. On the contrary, we should all strive to keep alive the sense of wonder and awe before the inscrutable mystery of the universe, before the tremendous mystery of existence—not merely of the existence of mankind, but of the existence of anything, the existence of a grain of sand, or of the planets, the sun, the solar system, the stars, the Milky Way, the constellations and galaxies without end. The difference between a philosopher and a philistine, between a thinking man and a Babbitt, is that the thinking man has not lost his sense of wonder. In his *Voyage of the Beagle*, Darwin tells us how, at one place where the ship anchored, the native savages were enormously curious about the rowboats in which the British came ashore; but they showed no interest in the ship itself. It was so far beyond their understanding that they simply took it for granted. It is a very limited and shallow mind that takes the existence and nature of the universe for granted.

LET US BY ALL MEANS keep alive our interest in ultimate questions; but let us recognize that they *are* ultimate questions, *final* questions. Our own conclusions on these matters, if we arrive at any, should not be made the necessary *premises* for agreement on practical actions or policy.

All of my readers are, I take it, devoted to a greater or lesser degree to liberty; and among the liberties that all of us hold most precious is liberty of opinion—for ourselves and for others. If we respect this, we will not insist that others must accept our own particular religious, epistemological, or ontological premises before we will even condescend to argue with them on moral, legal, or political questions.

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Wage Rates, Minimum Wage Laws, and Unemployment

YALE BROZEN

ALONG WITH THE weather, sex, health, and taxes, one of the most widely discussed topics in America is wage rates. We have had an abundance of guide posts offered for determining the changes which should be made in wage rates. Union strategists have insisted in times past that wage rates should rise when the cost of living goes up, whatever "cost of living" may mean. They do not accept the converse proposition that wage rates should go down when the cost of living goes down, however. In the latter case, they argue that a decline in cost of living means a depression is coming or has arrived and, therefore, wage rates should be raised to increase purchasing power and prevent the depression.

Another guide post offered in times past (and last year by Mr. Reuther) concerns the relationship between wage rates and profits. Still another relates wage rates to an acceptable level of living. Most recently, wage rates and changes in them have been linked to changes in average output per man-hour. The General Motors contract of a decade ago provided for changes in wage rates linked to the change in the consumer price index of middle income urban families, plus an annual improvement factor which happened to be approximately the same as the increase in output per man-hour in the American economy in the preceding several decades.

Four years ago last January, the Council of Economic Advisors entered the discussion of guide posts for wage rate increases. They were moved to do this because, as they said at the time, "...wage decisions affect the progress of the whole economy" and, therefore, "...there is legitimate reason for public interest in their content and consequences."[1] They repeated their suggested guide posts in 1964 because, as they said, "If cost...pressures should arise through the exercise of market power...we would be forced once more into the dreary calculus of the appropirate trade off between 'acceptable' additional unemployment and 'acceptable' inflation."

The Economic Advisers have advised that, "The general guide for wages is that the percentage increase in total employee compensation per man-hour

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1 "Annual Report of the Council of Economic Advisors," *Economic Report of the President* (Washington: Government Printing Office, 1962), p. 185.

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be equal to the national trend rate of increase in output per man-hour."[2] The Council has provided a measure of recent trends (1952-64) in the annual rates of growth of output per man-hour in the private economy. They suggest that the latest five-year trend in productivity, amounting to 3.2 per cent, should be *the* guide for wage rate increases. They seem to believe that if wage rates plus fringe benefits in each industry rise by 3.2 per cent, then the average cost of labor will rise by 3.2 per cent.

If hourly labor costs increase by 3.2 per cent on the average *in each industry,* however, average compensation per man-hour would rise by 4 per cent. Many wage earners obtain wage increases by leaving low paying jobs (such as those in agriculture) for higher paying jobs — without any change in the rates paid for specific positions. The average wage does rise, then, without any change in wage rates, about 0.6 to 0.8 per cent per year. Subtracting this out of the 3.2 per cent rise in output per man-hour for the total private economy would imply that the Council's suggested guide rate would be achieved with an average annual rate of change of 2.5 per cent per year in money wage rates (including fringe benefits as part of the wage, or employee compensation) in each industry.

The Council does not believe that every wage rate should be increased exactly by the rate of overall productivity increase. Their report says that "specific modifications must be made to adapt (the guide posts) to the circumstances of the particular industry."[3] For instance, they say "Wage rate increases would fall short of the general guide rate in an industry *which could not provide jobs for its entire labor force.*"[4] Also, they would fall short where "wage rates are exceptionally high because the bargaining position of workers has been especially strong."[5]

THE COUNCIL OF Economic Advisors should be complimented for its recognition of the fact that wage rates in some industries are too high to permit all those who would like jobs in those industries to obtain them. They should also be complimented for recognizing that money wage rate increases must be smaller in the future if we are to have more rapid economic growth and decreased unemployment without inflation. The Council recognizes that the upward movement of some wage rates and prices is the result of agreements between strong unions and employers, and that "the post-Korean war years were marked by the coincidence of relatively large wage increases with declines in industry employment."[6] The fact that unduly high wage rates decrease the number of jobs available and the number of people working in an industry is obviously understood by the Council and is clearly implied in its report.

Several things are left unsaid, however, which should receive explicit recognition. The Council dwells on the inflation which may be caused by large wage rate increases. They fail to recognize that large wage rate increases for some workers come not only at the expense of causing some to become unemployed, absent inflation, but also at the expense of workers in other sectors of the economy.

I would estimate that 10 per cent of the labor force of the United States receives wage rates about 15 per cent

2 "Annual Report of the Council of Economic Advisors," *Economic Report of the President* (Washington: Government Printing Office, 1965), p. 108. This same advice appeared first in the 1962 report where the Advisors said, "The general guide for non-inflationary wage behavior is that the rate of increase in wage rates (including fringe benefits) in each industry be equal to the trend rate of over-all productivity increase." (p. 189)

3 "Annual Report of the Council of Economic Advisors," *Economic Report of the President* (Washington: Government Printing office, 1962), p. 189.

4 *Ibid.*

5 *Ibid.*

6 *Ibid.*, p. 175.

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higher than they would in the absence of wage laws and governmental support of trade unions.[7] The result is that 90 per cent of the U.S. labor force receives wage rates about 5 per cent lower than they would otherwise obtain. The *net* result is greater inequality in the division of income and about 3 per cent less total wage income for U.S. wage earners, or about 10 billion dollars less than they would otherwise earn as a group (including those whose wage rate is excessive).

To illustrate this in terms of the experience of one state, let us consider some occurrences in Michigan. Wage rates in transportation equipment manufacturing in Michigan not only rose more than in other manufacturing industries in the state, but also rose, between 1950 and 1957, by 10 per cent more than in the *same* industry in the other four East North Central states (Wisconsin, Ohio, Indiana, and Illinois).[8] Overall employment in the auto industry declined in part as a result of overly large employment cost increases. In Michigan, where the greatest increase in wage rates occurred, the decline in employment was greater than for the industry as a whole. Between 1954 and 1958, there were 85,000 more jobs lost in Michigan than in the other four East North Central states. In 1954, Michigan employed 41,000 *more* workers in transportation equipment manufacturing than the other four states. In 1958 it employed 44,000 *fewer* workers in the industry than the other states. Michigan became a depressed area, in employment terms, largely because employment costs increased so drastically in its major industry.

Not only did employment in Michigan suffer; in addition, workers in other industries in Michigan suffered. Those becoming unemployed in the transportation equipment industry sought jobs in other fields. Many found jobs in other manufacturing industries. The consequence was, however, lower compensation for those in the other industries. More jobs were made available only by restricting the rise in wages which otherwise would have occurred. Hourly earnings in these "other" industries rose 6 per cent less than the rise in these same industries in the other four East North Central states. Although employment in these industries in Michigan increased more than in other states, this represents a less productive use of the labor than its employment in transportation equipment. If wage rates and other employment costs in transportation equipment had not been raised so much in Michigan, hourly earnings would have gone up more in the other manufacturing industries. High hourly earnings for auto workers came at the expense of workers in other industries.

THIS BRINGS US TO the second point which the Council failed to make explicit in its concern over the inflationary impact of unduly large wage rate increases. The power of unions is focused on certain sectors of the economy, such as transportation, auto manufacturing, and coal mining. Their use of power and the consent of employers to agreements which incorporate unduly high costs of employment decreases the number of jobs available in these sectors of the economy. Since these are industries in which output per man-hour is high, declining employment in these industries forces men to take jobs in low productivity sectors of the economy. The net result is a lower average output per man-hour for the economy than otherwise

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7 For the data on which this estimate is based, see H.G. Lewis, *Unionism and Relative Wages in the United States* (Chicago: University of Chicago Press, 1963), pp. 8-9, 286-95.

8 S.P. Sobotka, "Michigan's Employment Problem: The Substitution Against Labor," *Journal of Business*, XXXIV (1961), 124. For a fuller treatment of the subject see S.P. Sobotka, *Profile of Michigan* (New York: Free Press of Glencoe, 1963).

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would be attained. Excessive wage hikes in some parts of the economy cause our productivity to rise less rapidly (and average wage income to rise more slowly) than it otherwise would.

The experience of coal miners illustrates this point. Coal mining hourly earnings rose by $1.95 or 163 per cent from 1945 to 1960; bituminous coal mining employment dropped from 385,000 to 168,000. By way of comparison, in the same period, manufacturing production worker hourly earnings rose $1.24 or 122 per cent, and manufacturing employment rose from 15,524,000 to 16,762,000. The differential in hourly earnings in favor of coal miners increased from 18 to 39 per cent. Many of the coal miners who lost their jobs (and men who would have found employment in coal mines) took manufacturing jobs. In these jobs, their productivity and their wage income is lower than in coal mining. If we had more coal miners mining coal and fewer coal miners in other industries today, average output per man-hour in the private sector of the economy would be higher (and the record of the annual rate of increase in output per man-hour would be better), average wage income would be higher, and inequality would be less.

Excessive wage hikes in some industries slow the increase in output per man-hour in the economy as a whole for another reason besides forcing people out of high productivity into low productivity occupations. To make men worth employing in coal mining or auto manufacturing at high wage rates, the amounts of capital per man employed must be increased enough to raise the productivity of the men remaining in the industry to the point where employment costs can be covered. This is the process known as automation. Concentration of large amounts of the available capital on a few men in these industries reduces the capital available per man in the rest of the economy. With less capital per man, output per man-hour in other industries is lower than it otherwise would be. The distortion in the allocation of capital caused by distortions in the wage structure prevents average output per man-hour from reaching otherwise attainable levels. The result is a poorer record of increase in output per man-hour, a poorer record of growth, and lower incomes on the average for all.

The most important point that the Council has overlooked is that their proposed guides will have no influence on the determination of wage rates anyway. They worry about some wage rates being too high, about the unemployment caused in some areas of the economy by the overpricing of labor, about the slowing in the growth rate caused by increasing unemployment; but they suggest no effective means for preventing these unhappy events from occurring. They suggest that "an informed public...can help create an atmosphere in which the parties to (wage decisions) will exercise their powers responsibly." [9] This is much like expecting the flood waters rolling toward a threatened town to stop because an informed public recognizes the tremendous damage that will be done.

If an "informed public" does recognize that it and the country are being damaged by excessive wage increases, and that these excessive wage increases are the result of union power and legislative enactments, what should it do? The Council proposed no action! It seemes to be sufficient for the Council that the public recognize that the wage increases are excessive and damaging. The President has added that it is his intention to "draw public attention to major actions by either business or labor that flout the public interest in non-inflationary price and wage standards."

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9 "Annual Report of the Council of Economic Advisors," *Economic Report of the President* (Washington: Government Printing Office, 1962), p. 185.

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IT IS UP TO THE public, evidently, to figure out what it should do. The Council is not about to tackle this thorny problem. One thing the public might do is to tell the Council to tell the Secretary of Labor to stop raising the minimum wage rates he sets under the powers vested in him by the Walsh-Healy and Davis-Bacon Acts. In 1964, he raised a great many rates. Most of these he raised by much more than 2.5 per cent — usually by 5 per cent or more. Most of these rates were excessive before he raised them. According to the Council's guide posts, they should not have been raised at all. He raised rates in one case to $6.10 an hour, surely a clear instance in which the advice of the Economic Advisors would have been not to raise such a high minimum wage rate.

780

Since the Secretary of Labor has surely read the Council's report, however, I would advise the public to forget about asking the Council to speak to the Secretary of Labor. Instead, the public should speak to its Congressmen about repealing the Walsh-Healy and the Davis-Bacon Acts. These are pernicious Acts which, on the one hand, increase costs to the government and increase our taxes, and, on the other hand, prevent people from getting jobs who would like to have them.

Additional steps I would suggest to make the Council's advice effective is to reduce the power of labor unions. The public should insist on enforcement of laws during strikes. Assaulting and threatening people on their way to work is against the law in any jurisdiction about which I know.

Still another step I would suggest is the repeal of the increases which have occurred in the minimum wage rate set by the Fair Labor Standards Act. On September 3, 1965, there was an increase in the minimum wage from $1.15 to $1.25 an hour for a large group of employees, in addition to the group whose minimum wage was raised to $1.25 in September 1963. This will be and was an increase of 8.7 per cent in the wage rate of the very groups now suffering the greatest incidence of unemployment. It comes on top of a 15 per cent increase made two years ago. Not only is this a much greater increase than the 3.2 per cent rate of rise suggested by the Council — it is an increase for a group of people *who cannot now find jobs.* The Council has said "wage rate increases [should] fall short of the general guide rate (in occupations) which cannot provide jobs for their [entire] labor force."[10] The greatest unemployment we have is among the less educated, less skilled, low productivity, low wage groups. Teen-age unemployment amounts to 13 per cent, and Negro unemployment is 9 per cent. The Council's advice points strongly to the inadvisability of any wage rise in this group, much less an 8.7 per cent increase.

Certainly, this is not a time to enact still higher minimum wage rates. Yet, a bill is now before Congress which would increase rates from $1.25 to $1.60 and extend coverage to seven million additional jobs. When this passes we will doubtless find the number of applicants for the Job Corps skyrocketing.

We have seen the damage done by previous increases in the minimum wage rates. Newspapers a few months ago reported 1,800 women discharged in crab meat packing plants in North Carolina because of the increase in the minimum from $1.15 to $1.25 which went into effect last September. When the rate was increased from 75 cents to $1.00 in 1956, unemployment among workers under nineteen and females over forty-five rose, despite an increase in total employment by 1.8 million in 1956 over the levels prevailing in 1955, and a decline in unemployment in all other groups. Normally, increasing employment decreases unemployment

10 *Ibid.*, p. 189.

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in all groups.[11] It failed to do so in 1956 because of the overpricing of less skilled workers.

I remember vividly a dramatic example of the effect of the increase in the 1956 minimum wage. I visited friends in Nashville late in 1956 and remarked on the fact that they had acquired a maid since my previous visit in 1955. They told me that they had hired a Negro girl because the wage rate of maids had dropped, and they had to pay only 50 cents an hour. I expressed my astonishment and asked what had happened. They told me that local textile mills had been hiring girls at 80 cents an hour in 1955. When the minimum wage rate went up to $1.00 an hour in 1956, many of the mills reduced their work force and were no longer hiring Negro girls.[12]

Similar results occurred in 1950 when the minimum wage rate was raised from 40 cents to 75 cents an hour. Professor John Peterson of the University of Arkansas found, from surveys of large southern pine saw mills before and after the imposition of the 75 cent minimum wage in January 1950, that 17 per cent of the workers in mills whose average wage had been below the minimum lost their jobs.[13] Again, when the Fair Labor Standards Act came into operation in October 1938, workers in the seamless hosiery industry in Western Pennsylvania suffered unemployment. The imposition of a minimum wage rate of 25 cents an hour at that time caused layoffs and a drop in employment in Western Pennsylvania at the very time when employment in the United States was rising.

IN ADDITION TO THE actual unemployment caused by increased minimum wage rates, there is also a decrease in the opportunities for youngsters to obtain training which prepares them for productive employment. To put this in terms of a specific example, an automobile parts jobber testified: "We had always had a training program for new employees which in itself is expensive, and when the minimum wage was increased, we had to discontinue this training program and hire only people as we needed them on a productivity basis. In other words, the average number of employees that we now have is about 5 per cent lower than before the minimum wage was increased."

I could go on giving illustrations of the unemployment caused by minimum wage laws and their effects on freedom of choice among occupations, but this should be sufficient to convey the point. Instead, let me turn to another kind of minimum wage imposition and its effect.

We are very concerned in Chicago about the large number of adolescents who drop out of high school and are unable to find jobs. The problem manifests itself in part in high juvenile delinquency rates. These boys would like to engage in some kind of activity, preferably filling a job. Many of them used to be employed as elevator operators at $1.00 to $1.25 an hour. The elevator operators, union has succeeded in imposing a minimum wage of $2.50 an hour for operators in downtown Chicago buildings. The result is that owners of buildings have found it economical to spend $30,000 per elevator to automate their lifts and make them self-operating. Since the tax, insurance, depreciation, and interest costs of automating an elevator amount to $8,000 per year, it did not pay to automate when two shifts of operators cost only $5,000 per year. The union has succeeded in driving the two-shift cost of operation to over $10,000 per year. The result is elevator automation, no jobs for elevator operators, and a policing problem of unskilled

11 *Ibid.*, p. 232.

12 Y. Brozen, "Minimum Wage Rates and Household Workers," *Journal of Law and Economics*, V (1962), 103-9.

13 J.M. Peterson, "Employment Effects of Minimum Wages, 1938-50," *Journal of Political Economy*, LXV (1957), 419.

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teen-agers which is getting out of hand. I think this example speaks for itself. Thirteen per cent of the teen-agers who would like to have jobs cannot find them because of the minimum wage rates set by the unions, by the Secretary of Labor, and by law.

Perhaps I should quote the words of a U.S. Senate report at this point, "The conditions of insecurity and hopelessness that characterize the lives of many unemployed young people threaten their acceptance of traditional American ideals. What they need and cannot find is jobs. Given jobs, many of them will make a successful transition into the adult world and a useful contribution to the nation's strength. Without jobs, continuing moral degeneration is inevitable."

782

The power of unions to prevent people from taking jobs they would like to have is a major factor in causing some people to suffer the circumstances described in this Senate report. Perhaps it is an anticlimax to add that the power concentration in union hands is also a major factor in causing some wage rates to rise much more rapidly than the Council of Economic Advisors' guide lines would allow. Yet the Council has made no suggestion for limiting concentrations of power. It simply offers some meaningless rhetoric about the necessity for having an informed public opinion as a way of enforcing its suggestions.

There is quite a list of actions the Council could have suggested which would make its words meaningful. The fact that its words are not is demonstrated by a series of wage rate increases which have occurred since their guide posts were suggested — wage rate increases exceeding 3.2 or even 4 per cent. The New York electricians' increase is a notorious instance. Typographers on New York newspapers struck for a 26 per cent increase in compensation, surely an amount far in excess of 3.2 per cent. Longshoremen were granted an 8 per cent increase as a result of the pressures exerted by the Federal government during a strike. The Teamsters negotiated a contract providing a 5 per cent annual increase just a year ago. In the first six months of this year, the average wage increase in new settlements amounted to 4 per cent, exclusive of increases in fringe benefits. One-third of the workers covered by new settlements received increases of 5 per cent or more. The agreement negotiated last fall between the Communication Workers and the Michigan Bell Telephone Company provided a 5 per cent increase in wage rates and fringe benefits. The U.A.W. won a 4.9 per cent annual increase for each of three years in 1964. This is 50 per cent higher than the guide line.

THE COUNCIL'S GUIDE lines for wage setting are meaningless in terms of informing the public, providing a guide for employer-union bargaining, or for guiding employers who have no union with which to contend. Certainly, no one has paid much attention to the Council's guide posts, except where unions have used them as an argument for getting a bigger wage increase than they might otherwise be able to justify. However, they are meaningless for very good reasons other than the fact that no one uses them.

First, the increase in average output per man-hour is highly variable year to year. The overall trend of several past years has no necessary relationship to the change in any one year. If one examines productivity changes from year to year, it is clear that average output per man-hour decreased between 1920 and 1921, increased between 1923 and 1924, decreased between 1926 and 1928, decreased again between 1929 and 1933, etc. This is highly variable behavior. Any constant rate of increase even in real

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wage rates, much less money wage rates, would result in unemployment in some years, shortages of labor in other years, and allocation of much labor to the wrong places every year.

Aside from the fact that past output-per-hour trends do not provide a guide for *real*-wage rate changes in a specific year, they are of no help at all in judging proper changes in *money* wage rates. Money rates fell from 56 cents an hour in 1920 to 52 cents an hour in 1921 — a 7 per cent decrease — yet real wage rates went up 4 per cent because of an even greater decline in consumer prices. If money wage rates had been increased 3 per cent between 1920 and 1921, we would have had a 14 per cent rise in real wage rates and 10 million unemployed instead of 5 million in 1921.

The Council pays little attention to the possibility that real wage rates may increase through a declining level of product prices as well as by a rising level of money wage rates. In view of our balance of payments problems at this time, this should be the preferred method of raising real wage rates.

If we are going to engage in the sport of setting guide posts for wage increases, I would like to enter a candidate. I would like to suggest my guide post in the form of an answer to the question, "How can employers recognize the circumstances which dictate a change in the wage level or wage structure?" Of course, any time a company's profits fall or it incurs a loss, it would like to decrease its wage costs. In some cases, this may be the proper action to take; but, in other cases, a decrease in wage rates may increase costs or may cause the company to lose even more.

On the other hand, when profits increase, as they did for General Motors last year, for example, should wage rates be raised? Again this may or may not be the proper action. It depends upon the circumstances. How can we tell what to do, then, if the proper action is not directly related to profitability?

THE BEST SINGLE guide to the proper action is the relationship of the quit rate of currently employed persons to the rate of receipt of qualified applications for jobs. If the quit rate in a given company exceeds the qualified-applicant rate, the wage rate may be too low. People do not ordinarily quit jobs in appreciable numbers unless alternative jobs are available which are more attractive than those they are leaving. If the quit rate is high, we would probably find that better paying jobs, or jobs more attractive for some other reason, are available. A low qualified-applicant rate also indicates this sort of situation. Retaining a work force, then, may require an increase in the level of wage rates.

Now, one may notice that my suggested guide line is in the form of advice to employers. I am not interested in getting the public into the act, nor in getting government into the act. The only people in the act should be those who are employing men, and the men who would like to have the jobs. This is true for the determination of overtime rates as well as straight time wage rates. We should not impose penalty rates by law on employers for employing men over forty hours a week. If men desire additional income, wish to work more than forty hours per week, and are willing to do so for rates less than those required by the Fair Labor Standards Act, that should be their privilege as free men.

Further, one may notice that my advice to management is hardly necessary. It simply says, pay as much as you must to obtain the labor force you require; but do not pay any more than you must. Any company not trying to do this is not a business — it is a philanthropic operation. How long it

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can survive depends only on how long it can go on giving money away, or rather, how long the stockholders are willing to hold stock in a company giving away their money. Also, any company paying higher wage rates than it *must* to attract the work force it wants, and keep turnover rates as low as is profitable, is not serving the public well. It is providing fewer jobs than men would like to have and less product than its customers would like to have. If employers will follow their own interests by raising wage rates only when their quit rates go up (or threaten to do so), they will be serving the economy in general as well as their own interests.

In advising that quit rates should be the primary indicator in determining the appropriateness of a wage change, all I have really said is that wage rates should be set at the levels at which free marekts would set wage rates. Perhaps this might be better said by using a quotation from Henry Simons. He pointed out that

> The proper wage in any area or occupational category is....the wage that will permit the maximum transfer of workers from less attractive, less remunerative, less productive employments....We imply that any wage is excessive if more qualified workers are obtainable at that wage than are employed — provided only that the industry is reasonably competitive as among firms. Reduction of rates (in these circumstances) would permit workers to enter who otherwise would be compelled to accept employment less attractive to them and less productive for the community or to accept involuntary unemployment....
>
> The basic principle here is the freedom of entry — freedom of migration, between localities, between industries, between occupational categories. If such freedom is to exist....wages must fall to accommodate new workers in any area to which many qualified persons wish to move. Freedom of migration implies freedom of qualified workers, not merely to seek jobs but to get them; free entry implies full employment for all qualified persons who wish to enter. Whether the wage permits an adequate family scale of living, according to social service workers, is simply irrelevant ....what really matters is the judgment of workers who would be excluded by an excessive wage as to the *relative* merits of the employment in question and of employment in less attractive alternatives actually open to them. Other things equal, the wage is too high if higher than the wage in actually alternative employments. Ethically, one cannot go beyond the opinion of qualified workers seeking to transfer. If in large numbers they prefer employment here to the alternatives and cannot get it, the wage is excessive. [14]

I should add that the Council of Economic Advisors itself believes this, although it tries to avoid saying so. The Council does not think much of its own guide posts and prefers the one suggested here, as I will demonstrate shortly.

WHAT IS FRIGHTENING about the Council's discussion of guide lines for the economy is the implication that they know how to make wage decisions and price decisions which are in the public interest. Some idiot is likely to take this seriously and set up a regulatory agency to set wage rates and prices. It is not a long step from setting guide lines for the economy to guiding the economy. Down that road lies tyranny.

That the possibility is real is evidenced by the appointment two years ago of a member of the Council who believes the government should set up an Industry Economics Agency which

14 H.C. Simons, "Some Reflections on Syndicalism," *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1948), pp. 140-41.

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would set specific prices and wage rates — not just generalized national guide lines — and which would hold corporations over a certain size and unions to "new standards of public accountability." The Council has not yet gone this far, but there is talk about a so-called early warning group to watch for price and wage changes which do not conform to the guide lines.

The Council of four years ago did not even take its own rule for wage setting in terms of change in output per man-hour seriously. After offering its general rule it said, "wage rate increases would exceed the general guide rate in an industry which would otherwise be unable to attract sufficient labor."[15] This, of course, is what any employer does when he finds he cannot obtain as many employees as he wishes. He bids a higher wage to attract more people, frequently bidding substantial premiums above even union-set wage rates when he cannot find enough men. Also, the Council said, "wage rate increases would fall short of the general guide rate in an industry which could not provide jobs for its entire labor force."[16] This, of course, usually occurs in markets where there are large numbers of unemployed men — and no legal minima, or union power to prevent this. What the Council has said in these statements is that supply and demand in free markets should determine wage rates.

I am heartily in favor of those measures and those laws which maximize wage income and minimize inequality. If the labor legislation which I have discussed, and the guide lines proposed for determining changes in wage rates were good for labor as a whole, that would be the end of the matter for me. I question the virtue of these measures because they decrease labor income, limit the opportunity to obtain jobs and to engage in meaningful activity, and increase inequality.

15"Annual Report of the Council of Economic Advisors," *Economic Report of the President* (Washington: Government Printing Office, 1962), p. 189.

16*Ibid.*

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Economic Development and Free Markets

REED J. IRVINE

THE IDEA THAT THE wealth of nations can be expanded most rapidly by governmental direction of their economies is not a traditional socialist concept. In the broad sweep of economic thinking Adam Smith pioneered the view that governmental intervention was a hindrance, not an aid to economic development. He examined what was going on around him in England and some parts of Europe, and he came to the conclusion that if men were given a high degree of freedom to produce, trade, and consume, productivity would rise and consumers would be better satisfied.

The socialists, including Karl Marx, did not dispute the contention that economic freedom led to great productivity. They could not, for they had all about them the overwhelming evidence of the Industrial Revolution which showed that this was true. Note this description of the process of economic development under capitalism by Friedrich Engels:

> ...the bourgeoisie shattered the feudal system, and on its ruins established the bourgeois social order, the realm of free competition, freedom of movement, equal rights for commodity owners, and all the other bourgeois glories. The capitalist mode of production could now develop freely. From the time when steam and the new tool-making machinery had begun to transform the former manufacture into large-scale industry, the productive forces evolved under bourgeois direction developed at a pace that was previously unknown and to an unprecedented degree.

What bothered the nineteenth century socialists was not the inability of the capitalistic free market to bring about rapid economic development. On the contrary, many of them were appalled by the extent and pace of the economic change caused by the Industrial Revolution in England. They were all highly critical of what seemed to them to be an unjust distribution of the fruits of production. Marx and Engels shared these views, but they also advanced the idea that this tremendously dynamic productive system would eventually break down because of defects that were inherent in it. They perceived what they thought was a fatal flaw in the constant drive for greater productivity and what they

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The views expressed in this article are those of the author and do not necessarily reflect the views of the Board of Governors of the Federal Reserve System.

[1] F. Engels, "Socialism: Utopian and Scientific," *The Selected Works of Karl Marx*, (New York: International Publishers, 1962) Vol. I, pp. 165-66.

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thought was a tendency to minimize the use of labor and the payment of labor. They maintained that this would eventually bring the whole system crashing down and open the way to socialism.

The fact that economic history has failed to bear out the dire predictions of their prophets ought to be a source of profound embarrassment to Marxist theorists. The capitalist states have had their crises, but none of them ever proved fatal, and these economies have not only recovered but have gone on to create and distribute to the workers, as well as to the capitalists and rentiers, wealth on a scale undreamed of in the nineteenth century.

The dogma has had to be adjusted to this stubborn refusal of the facts of history to bear out the Marxian hypothesis. We hear less and less about the increasing misery of the exploited workers in the capitalist economies. Even rarer are the predictions of the eventual collapse of the developed economies of the West.

In lieu of this we have a new dogma —one which Marx would never recognize. One might say that just as Marx turned Hegel upside down, so have the modern Marxists turned Marx upside down. Socialism is no longer the synthesis that is supposed to emerge from the inevitable collapse of the most developed capitalist states. Rather, socialism is now presented as the engine of economic development itself. Capitalism, with its bourgeois emphasis upon free trade and free competition, is now portrayed as a system that is useless if not harmful for any underdeveloped country that hopes to see its wealth increase. While Marx and Engels saw in capitalism an irrepressible drive to expand production and productivity which would inevitably bring about its collapse, the modern socialist sees capitalism as completely lacking in dynamism with a fatal tendency toward total stagnation. Socialism is said to be the energizing medicine which the states stagnating under free market systems need to propel themsleves into the industrial age. This view has been accepted even by some modern-liberals, one of whom has put this new dogma in these words:

> Only in Russia and China do they, the submerged masses, find a model of how in backward countries great masses of people can raise themselves quickly by their own bootstraps.
>
> The Communists are expanding in Asia because they are demonstrating a way, at present the only obviously effective way, of raising quickly the power and the standard of living of a backward people.[2]

THE EMPIRICAL EVIDENCE no more supports this new hypothesis than it does the original theory of Marx. While the world has been awed by Soviet space feats, the people of Eastern Europe have grown increasingly critical of the failure of the communist economic system to provide housing, food, clothing, and other consumer goods in the desired quantities and qualities. While these countries boast of impressive rates of economic growth, their statistics have concealed serious economic failures. This is true not only in agriculture, where the disastrous effects of the communist policies are notorious, but also in industry.

This is why the revolutionary proposal that profit incentives be introduced into the Soviet economic system have made such headway throughout Eastern Europe. The proposal was first made by Professor Y.G. Liberman of the Economic-Engineering Institute of Kharkov in September 1962. Although the Liberman proposals were opposed by communist "conservatives" as being capitalistic, they were introduced in the Soviet Union on an experimental basis in July 1964. More recently, fol-

2 Walter Lippmann, *Washington Post*, November 13 and December 12, 1958.

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lowing Khrushchev's overthrow, the Soviet government announced that it was pleased with the results of the experiment and indicated that it would be extended to other plants. This triggered an announcement by Czechoslovakia that it was completely revamping its economic system to reduce centralized planning and control, and placing greater reliance on profit incentives and the law of supply and demand. A report from Prague summed up the trouble with the old system in these words:

> Through centralized planning and control, resources were squandered on almost every imaginable industrial product — from airplanes to xylophones. This over-extension produced intolerably high costs of production, manpower shortages and, above all, a loss of quality in comparison with the products of more-specialized competitors. Prague was forced to sell cheaply abroad and the cost of living here soared. There was no way to reverse the trend because central planning of production could control only quantity, not quality. It could not enforce technological improvement, innovation and refinement, which depend upon the producer's interest in his goods.[3]

Hungary has introduced "capitalistic" reforms, and Poland is clearly moving in the same direction.

An economic system which has been exposed as suffering from such serious inherent defects in the countries which have tried the hardest to make it work can hardly be recommended as a model to other countries. Where it has been tried in countries even more dependent upon agriculture than those of Eastern Europe, the results have been even more disastrous. Cuba, once one of the most prosperous countries of Latin America, was impoverished by communism in less than five years. China, within a decade of the communist takeover, was shaken to her foundations by the disastrous consequences of the economic follies of the communists. Economic debacles have struck or are threatened in such countries as Indonesia, Burma, Ceylon, Guinea, Mali, and Algeria as a result of their adoption of the "socialist" approach to economic growth. Retrogression, not progress, has been the hallmark of communist experimentation in the less developed countries.

What of the charge that capitalism is too lacking in dynamism to be useful to developing countries in the modern age? This too is refuted by the evidence.

The striking contrast between the economic restoration of West Germany under free-market capitalism and the painfully halting recovery of East Germany under socialism tells a great deal about the relative dynamism of the two systems. Of course, the socialists did not anticipate this result. Paul Hagen, a German socialist, in his book *Germany After Hitler,* which was published during the war, said that unless Germany adopted a system of "democratic planning, as against a restoration of profit capitalism" the economic outlook for Germany and Eruope would be a dark one. He thought that restoring the old system would amount to sentencing millions of Germans to death and would endanger European reconstruction.[4] Fortunately for Germany, Ludwig Erhard did not share these dogmatic doubts.

Japan, like West Germany, has displayed tremendous economic dynamism in the postwar period, while remaining wedded to free enterprise. In 1945, Japan's physical destruction was so complete and the demoralization of her people so thorough, that some observers thought it might take a century for her to recover economically from the war. It actually took

3 *New York Times,* November 6, 1964.

4 P. Hagen, *Germany After Hitler,* (New York: Farrar and Rinehart, 1944), pp.138-48.

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less than a decade. Manufacturing output exceeded the prewar level in 1953. Six years later it had doubled, and by mid-1964 it had doubled again. Japan is now the third largest producer of steel in the world, ranking behind the U.S. and the U.S.S.R. Japanese consumer goods are not only abundant at home, but they are being sold in great quantities all over the world. Japanese exports, despite discrimination in some markets, more than quadrupled between 1953 and 1963.

It should be noted that this achievement represents a great deal more than merely the recovery from the destruction wreaked by the war. The development of synthetic fibers during the war meant that Japan could not place such heavy reliance on earnings from raw silk exports as she had prewar. Cotton textiles, another prewar pillar of Japan's foreign trade, also offered diminished prospects as other countries developed their own mills and restricted imports.

The Japanese knew that they would have to trade to survive, but ten years ago no planner could possibly have predicted the course their trade would take. The Honda motorcycle which has since taken a good part of the world by storm was still little more than a gleam in the eye of a struggling young mechanic. Transistor radios were still unheard of, the world was just beginning to hear that the Japanese could make optical goods that rivalled German goods in quality, and the idea that the Japanese might give the Swiss competition in watches would have been considered a joke.

Fortunately, under the free-market system, it was not necessary for any planner to predict or even understand the possibility of these developments. They came about because of the dynamism of the free-market system — that same drive for greater efficiency, greater production and greater sales which had so forcefully impressed Karl Marx. The export of these and thousands of other items in tremendous quantities has earned for Japan the means to pay for the huge amounts of food, fuel, raw materials, machinery, equipment, and consumer goods that she needs to keep her great industrial machine operating and keep her people well-fed and contented. Although Japan has 96 million people crowded into four mountainous islands whose total land area is less than that of Paraguay, they have been able to achieve a reasonably high standard of living. This has been steadily improving in recent years as productivity has gone up. Unemployment is negligible and wage rates are now said to be comparable to those in Southern European countries. The rise in real wages has averaged about 4.5 per cent a year since 1951.

It may be argued that Japan and Germany are exceptional cases, since both had already attained a high degree of industrial development before the Second World War. Recovery and further rapid growth may be easier than starting from scratch — even if it did not so appear to observers at the end of the War.

What about other countries? Are there any which were not already industrialized which have shown signs of development in recent years?

THERE HAS BEEN a striking rise in industrial activity throughout the world in the postwar period, and many of the countries of Asia, Africa, and Latin America have participated in this. One of the most interesting examples is that of Hong Kong — both because its growth has been so rapid and because its economic policies have been in such striking contrast to those prescribed by the communists. Hong Kong is perhaps the closest approximation to nineteenth century laissez faire capitalism that exists in the world today. In the words of a recent publi-

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cation of the U.S. Department of Commerce:

> Hong Kong is unique among the world's markets in that it presents virtually no artificial barriers to trade. As a free port, the colony has no protective duties or quantitative restrictions on imports; no difficulties are encountered in obtaining import licenses or foreign exchange; no cumbersome procedures or delays hinder the clearing of merchandise through customs; the Hong Kong dollar is stable and freely convertible....Indeed, the concept of free trade and private enterprise is heartily supported and practiced by all segments of the business and official community and has probably been the single most important factor accounting for the phenomenal development of the colony's commerce and industry over the past decade.[5]

790

Before the War Hong Kong had been little more than a bustling entrepot for China. She resumed this role after the war for a few years, but the communist takeover on the mainland forced a dramatic change in her status. Hong Kong could no longer depend on the entrepot trade for survival. Moreover, her population was being heavily swollen by refugees from the mainland. No planner decreed that Hong Kong should emphasize industry, but it soon became apparent to a large number of people that it might be profitable to start manufacturing enterprises there. Labor was abundant and cheap, taxes were low, red tape was virtually nonexistent, raw materials and machinery could be imported freely, and Hong Kong had the whole world for her market.

A start was made in cotton textiles, and by 1957, little Hong Kong was becoming a competitor to be reckoned with in the world's textile markets. The entrepot trade continued, but as early as 1957, about a third of her exports consisted of goods produced in Hong Kong. This ratio grew to three-fourths by 1961.

Hong Kong does not publish an index of industrial production, but some idea of the rate of increase of manufacturing output can be obtained from the statistics on registered factories and employment. In 1950, there were 1,752 such factories employing 92 thousand workers. By the end of 1963, there were 8,348 thousand factories employing 354 thousand workers. Thus the number of factories had nearly quintupled while factory employment had nearly quadrupled. However, these figures considerably understate industrial employment. According to the 1961 census, 39 per cent of the population was employed, and just over half, or 610 thousand was employed in industry.

Hong Kong's industrial development has had to overcome the handicaps of a shortage of land and fresh water. Virtually all raw materials have to be imported, including fuels. This means that industry has not had the advantage of cheap electric power.

Nevertheless a most impressive array of manufactured products is now being produced. Cotton textiles are still the most important single product. At the end of 1963, 632 thousand spindles and 19.3 thousand looms were in operation. Over 540 million square yards of cotton cloth were produced, and most of this was exported. Other important industries include plastic products, shipbuilding and shipbreaking, machinery manufacture, cement, aluminum products, clocks and watches, enamelware, electrical equipment and appliances, foodstuffs and beverages, footwear, leather goods, electronic goods, hardware, optical goods, and clothing.

A decade ago Hong Kong was hardly anything more than an insignificant spot on the map as far as most people were concerned. Today, she is one of the major trading countries in Asia —

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5 U.S. Department of Commerce, *Hong Kong, A Market for U.S. Products*, (Washington: Government Printing Office, 1964), p.viii.

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and indeed, in the world. In 1963, only four Latin American countries, Argentina, Brazil, Venezuela, and Mexico, surpassed Hong Kong in the value of exports. This is a remarkable achievement for 3.6 million people crowded into an area of only 391 square miles which is almost completely devoid of natural resources.

As in the case of Japan, this dynamic economic expansion resulted in higher incomes and improved living standards for the working people of Hong Kong. In spite of the influx of refugees from the "workers' state" on mainland China, which in 1960 and 1961 helped boost the population of Hong Kong by an incredible 7 per cent a year, labor shortages have developed. Wages, while still low by Western standards, have risen sharply in recent years. Since the increase in the cost of living has been one of the lowest in the world, there has been a substantial increase in real wages.[6]

One indication of the improvement in living standards is the sharp drop in the death rate and the infant mortality rate in the last decade. The crude death rate has fallen to 5.5 per thousand, one of the lowest in the world. The infant mortality rate has been cut by 64 per cent since 1948 to the level of 32.9 per 1000 live births in 1963.[7] This is considerably lower than the rate for non-whites in the United States, and it compares with rates in Central America and Mexico which range from 80.2 for Mexico to 91.3 for Guatemala (1962 data).[8]

HONG KONG'S POSTWAR growth is a striking demonstration of just how dynamic a developing free economy can be. It does not prove that every free economy will necessarily be equally dynamic. The colony has had some advantages and some disadvantages not found in other developing countries. Not every country can duplicate Hong Kong's accomplishments even if it pursues identical economic policies. Some countries suffer from even more serious economic handicaps than Hong Kong. Some are so isolated geographically that they are at a serious disadvantage in international trade. Many have a large number of inhabitants who do not easily adapt to new and more efficient modes of production. Others are beset by political instability and strife which discourage saving and investment.

When a country which suffers from serious disadvantages such as these does not make rapid economic progress, the communists invariably place the blame on whatever degree of economic freedom the government may permit.

It would be wrong to pretend that there are always easy, quick solutions to many problems such as these. Economic freedom cannot overcome all such handicaps. Some curtailment of freedom is indispensable to the attainment of a reasonable degree of order and security in society, as Thomas Hobbes long ago convincingly argued in the *Leviathan.*

It would be equally wrong to argue that all of these problems can be solved by abolishing all individual economic freedom, as the communists propose. This is not merely because freedom is itself something which men prize highly, frequently more highly than material progress. It is because freedom, when properly used, can accelerate material progress enormously. To use an analogy, an excess of lubricating oil may cause a motor to malfunction. This does not mean that you try to operate the equipment without any oil at all. The amount of freedom in an economy, like the lubricating oil in a motor, has to be adjusted to the varying conditions that exist.

6 *Hong Kong Report for the Year 1963,* (Hong Kong: Government Press, 1964), pp.50-51.
7 *Ibid.,* p.453.
8 *U.N. Statistical Yearbook,* 1963.

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The communists, by dogmatically propagandizing against this valuable economic "lubricant," have succeeded in influencing policy in many countries toward minimizing the degree of economic freedom that is permitted. They have systematically labored to magnify the obstacles to economic development in free economies. They have worked to intensify political instability and insecurity, they have done their best to discourage the induction of needed savings from abroad, they have tried to frustrate efforts to increase labor productivity and needed rationalization in the allocation of economic resources. All this has been done to prove that freedom has to be eliminated. The result has been that many economies are functioning at far less than the highest possible level of efficiency either because they have permitted too much liberty to those whose main objective has been to keep the economy from performing satisfactorily, or because they have given in to unreasonable pressure to restrict freedom which might improve the functioning of the economic machine.

The experience of Japan and Hong Kong, where these machinations have had no success, deserves careful study and emulation by the countries of the world which wish to develop economically.

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The Sources of Monopoly

SUDHA R. SHENOY

IN THIS ARTICLE I wish to examine, very briefly, the tacit assumption universally made, even by free-market writers, that monopoly is a natural market phenomenon, arising out of normal market processes. I hope to show that, on the contrary, the conditions of monopoly cannot arise except in connection with government intervention.

The characteristics of monopoly are usually given as follows: (a) exclusive control over the whole—or a very high proportion—of the output of a commodity lacking close substitutes (or control over a group of commodities that are close substitutes to each other); arising out of, and maintained by, (b) barriers to entry that are tacitly assumed to be spontaneously thrown up by normal market forces; or (c) the two together (exclusive control over supply and barriers to entry), enabling the monopolist to restrict output below, and thus raise prices above, the competitive level.

For our purposes the most important assumption to consider is the second, barriers to entry.[1] Before going on to examine some of these, I should first like to suggest that exclusive control over the supply of a (physically distinct) commodity does not mean that the "monopolist" is isolated from, or insulated against, the effects of competition—using the term to indicate a dynamic market process. The range of substitution open to the consumer is not something which is fixed once and for all, and which can be ascertained by simple "observation." We seem to have here a confusion between the economic and the technological notions of substitution. Whether commodities are to be regarded as complementary or as substitutes depends not on their technological characteristics, nor on the opinion of the economist, who is only an observer, but on the real actions of individuals taken in their aspect as consumers. Products may be treated differently by different consumers at different times: a housewife may today treat cornflakes and shredded wheat as perfect (economic) substitutes, while tomorrow she may differentiate sharply between them if in the meantime her family has acquired a taste or a dislike for either. Again, wash-and-wear shirts may be seen as providing substitutes for laundry services; and home canning may similarly provide competition for the large firms producing canned goods. In short, there may be all sorts of unexpected sources of competition on the market.

To return to the notion of bars to entry: It has been argued that costs may form a barrier, in the sense that the optimal size of the plant in a particular field may be "large" compared to the size elsewhere. The necessity of having to raise large amounts of capital,

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1 See, for instance, the long and comprehensive list compiled by J.S. Bain, "Conditions of Entry and the Emergence of Monopoly," in E. H. Chamberlin, ed., *Monopoly and Competition and Their Regulation* (New York: Macmillan, 1954). Also see the discussion by E.A.G. Robinson, *Monopoly* (London: Nisbet and Co., 1941), chaps. i and ii.

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however, cannot be said to prevent entry, since if sufficient profits were anticipated the capital would be forthcoming, either from savings or by withdrawing it from other uses; and if sufficient returns were not anticipated, this would indicate that the existing firm was efficient enough in meeting the demand so that the setting up of another firm would be unprofitable, or at least less profitable than using the resources elsewhere.

Nor can it be said that cut-throat competition can establish a monopoly by driving all firms except one out of business: since whenever the "monopolizing" firm attempted to raise its prices again, it would be inviting other firms to enter the field. [2]

WHAT ABOUT MONOPOLY arising out of exclusive control over some essential factor of production—e.g., a natural resource or a trade secret? Now here again, a rise in relative prices would render profitable the search for substitutes,[3] or the use of techniques or factors that would not otherwise be profitable. Moreover, the possession of a "trade secret" by a firm must be counted as part of the skills forming its owner's property.

Goodwill, advertising, and product differentiation are said to create monopolistic positions and barriers to entry by, so to speak, "attaching" consumers to a particular supplier, so they do not readily turn to alternative sources of supply. Here, too, the economist cannot decide for the consumer his range of substitution, since this would depend on the latter's own preferences (including his laziness or other costs involved in acquiring information about possible substitutes). It would always be open to competing firms to try and persuade consumers of the superiority of their own products and services, since presumably the "attachment" of the consumer to a particular firm bears some relation to its performance, or to his beliefs about its performance. Moreover, to speak of such things as advertising and good will as creating monopolistic positions would seem to imply that consumers react like puppets. The function of these two is probably better described as conveying information to consumers. The concept of product differentiation is subject to the same ambiguities as that of the range of substitution: is the product "different" from the viewpoint of the technologist, the engineer, the economist-observer, or the consumer; and whose viewpoint is most relevant?

For these considerations, I will suggest that the sources of monopoly cannot be found in market processes, as their working has usually been interpreted; and I will propose that the chief sources are governmental acts of intervention, for here we have a clearly identifiable and unambiguous class of barriers to entry. We can clearly and unambiguously identify a restriction of market supply below the competitive level, and the corollary of raising prices above the level they might otherwise have attained.

In the case of such interventions as exclusive patents, grants, charters, concessions, permits, licenses, tariffs, and quotas, this restrictive effect is quite plain. All of these reduce the number of sources of market supply—the number of firms that would otherwise be present in the market. Yet we may also perceive this restrictive effect arising out of such interventions as progressive taxation, labor legislation, and the special privileges granted to labor unions. Progressive taxation prevents the accumulation of additional capital, to the comparatively greater

2 See W. A. Leeman, "The Limitations of Local Price-cutting as a Barrier to Entry," *Journal of Political Economy*, LXIV (1956), 329-34; for the classic Standard Oil story, see J. S. McGee, "Predatory Price Cutting: The Standard Oil (N.J.) Case," *Journal of Law and Economics*, I (1958), 137-69; J. Chamberlain, *The Enterprising Americans: A Business History of the U.S.* (New York: Harper and Row, 1963), pp. 146-56.

3 An excellent example is Indian jute: The Indian Government believed that since India had exclusive control of jute production, it was safe to charge heavy export duties and thus raise prices. The outcome of this was not the reaping of monopoly revenues, but a great expansion of production of substitutes for jute, such as kraft paper.

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detriment of those firms and individuals seeking to establish themselves, and to the advantage of established firms and the already-wealthy. Firms cannot expand except as they save out of their rising incomes or borrow out of the rising incomes of others. Insofar as these incomes are taxed away at progressive rates, new firms and individuals seeking to rise are placed at a comparative disadvantage to those who may fall back on previously accumulated capital. If "large" firms and "wealthy" individuals are prevented from growing larger or wealthier, the comparatively smaller firm and poorer individual are prevented from rising at all.[4]

The effect of labor legislation is to raise total costs above the level they would have otherwise attained. This in turn implies that fewer firms will be able to continue in, or newly enter, the fields where such legislation is applied. In other words, we have here a formidable cost barrier to entry.[5] Labor unions have been granted the special privilege of using private coercion; they may use this power to cartelize an industry, or give de facto monopoly to a single firm, by preventing the entry of firms who would seek to cut costs, or by driving certain firms out of the field. That unions in the United States have used their special privileges to cartelize numerous areas of economic activity seems to be one of the major conclusions emerging from such investigations as those of Senator McClellan and his Committee.[6]

SO-CALLED "FAIR TRADE" laws, which set minimum prices or purport to set minimum standards, also operate to reduce competition and thereby create semi-monopolistic positions.[7] And then there are, of course, the cartels and monopolies, especially in the agricultural sectors of developed economies, that have been deliberately organized by governments.[8] For these reasons, we find that, historically, government intervention has almost invariably been connected with the emergence of monopolies. We may examine some specific examples of this:

In the United States, the presence of tariffs on manufactured goods almost certainly facilitated the emergence of monopoly-like situations in the manufacturing sector of the economy in the latter half of the last century by limiting the effectiveness of international competition. The remedy, however, was sought in further intervention, in the form of antitrust legislation. This at least prevented further monopolization, by making cartelizing contracts unenforceable at law, thus permitting domestic competitive forces to operate;[9] but legal opinion in the country does not seem certain whether uniform pricing by independent firms should be taken as evidence of competition or collusion, while every attempt at price cutting seems to be taken as evidence of a desire to monopolize.[10]

In Germany, contracts in restraint of trade were declared enforceable at law by the Supreme Court, thus eliminating the emergence of competition via the activities of "chiselers"; later,

4 For a discussion of the various results of progressive taxation, see especially F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), chap. xx and the references given there.

5 See the brief remarks by P. T. Bauer, "Regulated Wages in Under-developed Countries," in P. Bradley, ed., *The Public Stake in Union Power* (Charlottesville: University of Virginia Press, 1962), pp. 348, 353; see also the discussion in W. H. Hutt, *The Theory of Collective Bargaining* (Glencoe, Ill.: The Free Press of Glencoe, 1954), and in H. C. Simons, "Some Reflections on Syndicalism," *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1948), pp. 121-59.

6 See Simons, *ibid.*, and also S. Petro, *Power Unlimited: The Corruption of Union Leadership* (New York: Ronald Press, 1959).

7 See especially Simons. *loc. cit.*

8 See L. C. Robbins, "The Inevitability of Monopoly," *The Economic Basis of Class Conflict* (London: Macmillan, 1939), and the remark by Hayek, *op. cit.*, p. 265, and also chap. xxiii.

9 See W. Roepke, *The Social Crisis of Our Time* (London: Wm. Hodge and Co., 1950), p. 251n; J. Chamberlain, "The Morality of Free Enterprise," in F. S. Meyer, ed., *What is Conservatism?* (New York: Holt, Rinehart and Winston, 1964). But also see S. Petro, "The Menace of Antitrust," *Fortune*, November 1962, pp. 128-31.

10 See the brief remarks by F. A. Hayek, "Unions, Inflation and Profits," in Bradley, *op. cit.*, pp. 54-56, and *The Constitution of Liberty*, p. 265.

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the government actively engaged in the formation of cartels, even making cartelization compulsory.[11]

In South Africa, diamond mining was gradually becoming a more competitive industry when the government, alarmed at the prospective loss of revenue from its share of the profits of one of the companies, decreed that thenceforward mining was to be by license only.[12]

In Great Britain, monopoly was never a serious problem during the free trade period of the nineteenth century; it became a problem only with the abandonment of free trade in the early twentieth century, and with the acceptance by the courts at about the same time of the enforceability of restrictive contracts, if the restrictions were "reasonable."[13] In Britain, also, the government has engaged actively in the cartelization of the trucking and coal mining industries, as well as of agriculture.[14]

In India, comprehensive exchange and import controls, together with comprehensive and detailed regulation of every aspect of business life, insure that competition is never allowed to emerge.[15]

The conclusion to which all these considerations would seem to lead is that monopoly is not, as so many have supposed, a natural, market phenomenon at all; but that, on the contrary, it does not arise except in conjunction with government intervention.

11 See especially F. Boehm, "Monopoly and Competition in Western Germany," in Chamberlin, *loc. cit.*

12 See the account given by E.A.G. Robinson, *op. cit.*, pp. 49-53.

13 See the account given by Robinson, *op. cit.*, pp. 49-53.

14 See J. B. Heath, *STILL Not Enough Competition?* (Hobart Paper No. 11; London: Institute of Economic Affairs, 1963), p. 22.

15 See B. R. Shenoy, *Indian Planning and Economic Development* (Bombay: Asia, 1962); and by the same author, "A Report on Ten Years of Economic Planning in India," *New Individualist Review*, Winter 1964, pp. 13-20, also see P. T. Bauer, *Indian Economic Policy and Development* (London: Allen and Unwin, 1960) for a more general discussion.

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What's Wrong With Right-to-Work Laws

HIRSCHEL KASPER

ALTHOUGH THERE IS NO necessary reason why public policy proposals should be consistent with one's political philosophy, it can be embarrasing for classical liberals to say one thing and lobby for another. The recent debate on the issue of whether to maintain Federal legislation to enable states to pass Right-to-work laws presents just such a striking anomaly. A correct reading of classical liberal philosophy requires disapproval of legislation, Federal or state, which forbids private parties to engage in a mutually beneficial exchange, unless that private contract eliminates liberty or is an element of increased coercion. Given our existing economy. Right-to-work laws should be seen as antithetical to those who prefer more liberty and less governmental coercion.

Since this line of reasoning may not be clear, a brief discussion of the background of Right-to-work legislation may be useful. When there is a federal system of government, legislation on the same matter may arise from both the central Congress and the state legislatures. The Supreme Court has decided that national legislation preempts state legislation in labor-management relations, as well as in many other areas. In this light, Congress wrote into the 1947 Taft-Hartley Act a provision, Section 14(b), which said specifically that the Act should not

> ...be construed as authorizing the execution or application of agreements requiring membership in a labor organization as a condition of employment in any State or Territory in which such execution or application is *prohibited by State or Territorial law.*

The effect of such Congressional legislation is to allow states to prohibit union-management contracts which require union membership as a condition of employment. About two-fifths of the states, mostly in the South and West, have taken advantage of Section 14(b) of the Taft-Hartly Act and passed restrictive legislation to outlaw "union shop" agreements. The state laws, referred to as Right-to-work laws, thus derive from the Congressional legislation; and if Congress had repealed Section 14(b), there is no doubt that the state legislation would have been invalidated.

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It is not immediately apparent why a classical liberal should favor legislation which forbids unions and firms from signing a contract which requires union membership as a condition of employment. Certainly, there would be opposition to legislation which prohibited contracts from including provisions on hours, grievance procedures, and working conditions. Union security provisions requiring workers to join unions and to pay union dues are as much a legitimate condition of employment as requirements that workers arrive at work on time and perform their jobs satisfactorily. All of these conditions of employment are coercive of the employees who would prefer to work under other arrangements; but there is no especial diminution of liberty, certainly not in modern-day America. The right to work for a particular firm under an employee's own conditions has not been recognized, and is likely to remain secondary to the right of a firm and a union to establish mutually satisfactory rules for employment.

TO A CLASSICAL LIBERAL, the denial of a union shop, where it is desired both by labor and by management, is a needless and arbitrary reduction in liberty. All workers in each of the nineteen states with Right-to-work laws are denied by statute the opportunity of working in a union shop. Just as an open, competitive society will give birth to firms which can take advantage of the propensity of women to prefer to work from 10:00 A.M. to 3:00 P.M., so it will give birth to firms which hire workers who prefer not to join unions, for whatever reason. This is more than an academic point, since total union membership in the United States is less than one-fourth of the total labor force, and less than one-half of the number of "potential" or "eligible" union members. The open society is far more protective of the liberty of workers to work under conditions which they prefer than a society which prohibits certain working conditions.

In addition, it is not obvious that union shop provisions should be prohibited in order to improve labor-management relations. On the contrary, there is a strong presumption for allowing the parties to the bargain the widest latitude in working out for themselves those conditions of employment which improve the labor-management relations climate. Bargaining practice suggests that union security provisions are obtained by the union only at the cost of foregoing some other demand. Reportedly, management often "sells" a union shop provision for a five-cent per hour wage increase. Since there is so little known about the impact of union security provisions on labor-management relations, there is every reason to suppose that the regulation of union security ought to be left to the parties involved.

Although all unions might prefer stronger union security provisions, companies are of mixed opinion. Some firms believe that the climate of labor-management relations is improved when unions are assured of members without continuing incidents of bickering; others believe just the opposite. In one case, the labor agreement of a large farm implement manufacturer includes the text of a union security provision which it would want but cannot have because such is not "legally possible under Iowa and Federal laws" (according to the agreement). Thus, the existence of a Right-to-work law interferes with the right of private parties to sign agreements and to commit private property in accordance with their preferences. The effect is to coerce the parties to the bargain and, in our society, to increase the liberty of none.

Let me emphasize that the argument here is not one of whether union security provisions are good or bad; the argument is whether there should be legislation which prohibits them.

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IT IS DIFFICULT TO shake the suspicion that many people favor Right-to-work laws because of the presumption that such legislation will weaken the political and economic power of unions. Regardless of whether this presumption is correct, and most of the evidence is in the other direction, this kind of legislation is a most obtuse way of accomplishing the goal. If the opposition to unions is to be based on liberal tenets, it should be focused on the nature of unions and collective bargaining per se, and not on those kinds of government interference which on any other grounds would be inherently indefensible.

Although Right-to-work laws interfere with the right of private contract and must be coercive, if they are effective, it does not follow that repeal of such legislation is neutral with respect to private property. The concern here is that some workers, currently employed in Right-to-work states, who would prefer jobs where union membership is not a condition of employment, would suffer a loss of property if their unions obtained union shop contracts. These workers have accumulated rights in the form of pensions, insurance, and, most important, seniority, which they would lose should they have to take another job to avoid union membership. One compromise which would increase freedom, preserve property rights, and minimize coercion might be the repeal of all Right-to-work laws — i.e., repeal of Section 14(b) — but with the provision that all currently employed workers who are not now members of a labor union would not be compelled to join a union as a condition of employment. All new employees in firms which have union shops would be required to join the union as a condition of employment. Such a compromise would ease the transition for workers and unions in states with Right-to-work laws, since job opportunities in those states are increasing at a faster rate than in the economy as a whole.

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COMMUNICATION:

"Fragile" Constitutions

W. H. HUTT

PROF. THOMAS MOLNAR'S courteous criticism of Dr. Denis Cowen's interesting article on "Prospects for South Africa" [1] reminds me of an occasion some years ago when I was addressing a meeting of the South African Institute of Race Relations (from the floor). The question of constitutional protection of minorities had arisen. I put forward the proposition that "the essence of an effective constitution is that it is built on mistrust, not on faith." I can remember the murmer of disapproval — even seething indignation — which swept over the gathering. Most of the kindly, well-meaning people present — many of them clergy — could simply not contemplate so cynical a view.

Several years before that, at another meeting of the same Institute, I had argued that the prospect of an African majority, through the ultimate extension of the franchise on the basis of "one man, one vote," created wholly justifiable fears on the part of the Whites. I suggested that, if the sharing of political power with the Africans was ever to be peacefully achieved, it would have to be based on constitutional entrenchment of the rights of the three minorities — the Whites, the Coloureds (i.e., the half-castes), and the Indians. I suggested further that, for the presently-enfranchised Whites to be persuaded to share their virtual monopoly of political power, it would be absolutely essential to renounce the principle of universal suffrage on a common roll and accept some form of weighted franchise.

I was told that the Africans would never agree to any such arrangement; that the very suggestion implied a slight on the majority race and a wish to maintain them in a permanent condition of inferiority and subordinacy; and, much to my regret, my proposal evoked an angry attack in the press from Alan Paton, for whom I have a profound admiration as a genuine humanitarian and one of the greatest novelists of this generation.

Professor Molnar's position appears to be exactly the opposite to that of the sentimentalists whose opposition I have recorded. He seems to argue categorically that no effective constitutional protection for minorities, such as the Whites in South Africa, is possible, unless the constitution denies *all* political representation to the majority group. Those who believe, as the Progressive Party in South Africa does,

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1 The two articles mentioned appeared, respectively, in the Winter 1966 and Spring 1965 issues of *New Individualist Review*.

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that the solution lies in the direction of limitations on voting rights, he describes as "starry-eyed liberals and misguided intellectuals." Actually, that Party happens to be the only political party of which I myself have ever been a member, and I hardly deserve to be called "liberal" in the current American sense of the word.

The sole reason why I felt compelled to join the Progressives a few years ago was that they are the only party in my country which has any glimmering of insight into the imperative need to restrain majority power. However wrong they may be on some issues, they do perceive that, if we are to find any democratic solution to the incipient racial conflict which history has bequeathed us, it is the state which we must somehow control.

Yet we are reminded by Prof. Molnar that very few bills of rights and constitutions have "proved more than very fragile paper barriers." This is undoubtedly true; but his point is, we should notice, not that constitutional entrenchments cannot be effective when they are enforced, but that constitutions will be torn up when they are unpalatable to majorities.

The tearing up of the 1910 constitution of South Africa through the subterfuge of packing the Senate, and the absence of Constitutional restraint to prevent political appointments to the Supreme Court of the United States (which appointments have led to the Court's functioning on vital issues — as I once heard it put — "like a constitutional convention in permanent session"), ought properly to shake the faith of those who, like myself, believe that minorities *can* be effectively protected by entrenched constitutional provisions with a rigid separation of powers.

But if a constitution is framed by those who have studied dispassionately the manner in which time-serving politicians have in the past trampled on bills of rights, and who recognize therefore that their task must be carried out in an atmosphere of the utmost distrust of politicians and parliaments, and even of judges, must they necessarily fail? Obviously, a more effective means of ensuring judicial independence and preventing judicial tyranny than has yet been achieved in the United States is needed. Moreover, the question of control of the police and the armed forces is also a vital issue.

I DO NOT THINK THE leaders of the Progressive Party in South Africa have gone nearly far enough in their studies of these and other aspects of the working of constitutions. The complex racial difficulties with which they are faced demand more imagination and inventiveness than they have yet given to their task; but they are pioneers among realistic political thinkers about race relations in South Africa. They deserve every encouragement and the frankest criticism from their friends.

May not the attitude of Prof. Molnar on this issue have been influenced by a belief that a more humane form of apartheid is possible? Does he believe that the "separate development" of Africans in Bantustans like the Transkei, in which they will be permitted local government rights and ultimately perhaps (although this is very unlikely) some measure of political independence, can provide a statesmanlike solution?

The truth is that, in spite of all the efforts to bring about segregation of *one* of the races in South Africa — the Africans — they seem to be in the process of integration into the White economy at an accelerating pace. As a very wise resolution submitted to a meeting of the Institute of Race Relations recently put it, "Segregation is an ideal....It does not exist in any general or fundamental form in South Africa. The fact of integration and the ideal of segregation are on different planes and do not admit of a middle

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course between them...." And the resolution suggests that one proper field of activity is, therefore, "demonstration of the fact of integration and exploration of ways to live with it. ..."

In spite of strenuous, indeed ruthless, governmental attempts to turn back the tide, economic integration is growing. Is it really conceivable, then, that a minority race will be able permanently to deny equality of opportunity to the other races, who constitute an overwhelming majority of the population, and to withhold from Africans the effective right to vote in the areas in which most of them must work? If Prof. Molnar thinks that this is possible, does he not invite the application to himself of his own epithet, "starry-eyed"?

When the minorities in my country fear eventual domination by the Africans — possibly imbued with the spirit of African nationalism and thirsting for revenge — these minorities are, of course, fearing what nationalists can achieve through the machinery of the state. The Progressive Party and Dr. Cowen are thinking in terms of preventing the abuse of state power. If Prof. Molnar maintains that they have not yet satisfactorily solved the problem of how to do so, I agree with him. But surely he cannot contend that they are groping for a solution *in the wrong direction.*

Origins of Apartheid:

In the following excerpts from his book, Economics of the Colour Bar, *Prof. Hutt discusses the origins of* apartheid. *In the opinion of the Editors, an awareness of the history of* apartheid *is important in light of the preceding discussion.*

WE DO NOT . . . find in colour prejudice as such the main origin--nor, perhaps, even the most important cause--of most economic colour bars. The chief source of colour discrimination is, I suggest, to be found in the natural determination to defend economic privilege (the preservation of "customary economic relationships between the races"), non-Whites simply happening to be the essentially underprivileged groups in South Africa. Certainly colour custom and colour prejudice have been persistently exploited in efforts to win electoral support for measures which seek to curb the tendency of the profit system to admit the poorer races to better opportunities; but such casuistic exploitation of custom and prejudice does not make it the prime motive for the exclusion of competition from the despised or feared Coloureds, Asiatics or Africans.... [1]

Because of the shortage of skilled personnel in South Africa at the beginning of the century, artisan immigrants, reared in the traditions of the emergent restrictionist ideologies and British trade unionism, were brought to fill artisan and foreman posts. It is hardly surprising that, after the Boer war (and together with their Afrikaner comrades after 1907), they should have endeavored to enforce a sort of closed shop which denied all opportunities for advancement to their non-White comrades. The political background of the period had produced stereotypes which actively encouraged the formation of labour unions, and the strike power so

1W. H. Hutt, *The Economics of the Colour Bar* (London: Institute of Economic Affairs, 1964), p. 27.

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created seems to have enabled the Whites to perpetuate the ratio of White to non-White wage-rates which had been established by the 1880's. In this way, the unions managed not only to preserve the remuneration of their members against the competition of their fellow Whites, but later to forbid the training of Africans for employment in responsible, supervisory and skilled occupations.

What was probably at that time the most blatant colour bar of history (although by no means the most burdensome) received the force of law in 1911. The motive was industrial peace; but it was sought *via* an appeasement of the militant White labour organization, which appeared then to be growing in strike power and political support.

The beginnings of militant unionism date from the 1880's and 1890's when branches of British labour unions were opened in South Africa. The leadership was in the hands of typical union officials of the British type–hard, ruthless but scarcely Marxist. Quite early in South African labour history, however, the influence of the extreme Left seems to have been discernable, and resort to violence in support of strike action was not uncommon. This tendency was probably due to infiltration of the class-war idea from foreign countries rather than from the relatively respectable British trade unionism of the day.... [2]

During the First World War, the White miners' union had succeeded in enforcing wage-rate increases many times larger than those obtained by the unorganized Africans. But the position of the latter had in some respects improved because, through the emergency, they had been permitted to undertake semi-skilled work especially as drill-sharpeners. This opportunity for a small proportion of Africans mitigated the increased costs of mining gold, the price of which rose to a premium after the war for a short period only. When it was obvious that the sterling price of gold would return to its standard level, the mine-owners naturally attempted to retain Africans in semi-skilled tasks and tried further to obtain some relaxation of other wasteful provisions enforced through regulations under the 1911 Colour Bar Act. They asked for a ratio of 10.5 Africans to 1 White; but the labour union demanded 3.5 to 1. A disastrous strike followed in 1922. The miners were supported by a general strike on the Rand, which developed into virtually an armed uprising. Those who revolted were mainly Afrikaners, but as always the extremists of the Left were experts in the art of fishing in troubled waters. W. H. Andrews, who was shortly to become Secretary of the Communist Party in South Africa, played a leading role in this fight for White privilege. The revolt was crushed but powerful publicity had been given to the notion that the Whites were fighting against capitalist exploiters for the preservation of their traditional and rightful economic supremacy. In that sense, the strike, which has been called the "colour bar strike," was a victory for Andrews and those who called themselves socialists.

At the time of the strike, the overwhelming majority of the white miners (foremen or artisans, as distinct from executives) were Afrikaners from the Transvaal and the Orange Free State, and their anti-colour indoctrination had been fruitfully exploited from the first by the Marxist-indoctrinated inspirers and leaders of the insurrection, such as Andrews. The result was a great boost to the South African Labour Party, which was modelled more or less on its British counterpart and was on the best terms with the British trade-union movement. In 1924, largely through the impact upon White opinion of the 1922 strike, it obtained the chance of sharing in government through a coalition formed with the Nationalist Party, a socialistically-oriented party representing Afrikaners who accepted the principle of White supremacy and non-White subjection. Without this active

[2] *Ibid.*, pp.58-59.

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co-operation of a typically British sort of Socialist party to form a Labour-Nationalist "Pact," the era which introduced the most serious forms of colour injustice might never have emerged....[3]

THE "RATE FOR THE JOB" was the vital principle in the most powerful yet most subtle colour bar that has ever operated. Equal pay for equal work (i.e., for identical outputs of a given quality) is a result of the neutrality of the free non-discriminatory market. It is no method of achieving such a market. When the standard wage-rate is forced above the free market level (whether through legal enactment or the strike threat), thereby reducing the output which can be produced profitably, it must have the effect of preventing the entry of subordinate races or classes into the protected field or of actually excluding them from it. This has been by far the most effective method of preserving White privileges, largely because it can be represented as non-discriminatory. Whereas some of the policies of the Labour-Nationalist Pact amounted to blatant discrimination (such as the deliberate dismissal of non-Whites in order to employ Whites in government service), the effects of the "civilized labour" restraints have been far more important. They have rendered much more formidable the restraints imposed by custom and prejudice that have debarred non-Whites from avenues of economic advancement. They have, indeed, had a more unjust impact than "influx control" and "job reservation" under apartheid....[4]

The initial disadvantages of the non-Whites due to home background and lack of resources for investment in their own education have in themselves been a minor hindrance to their progress. It will generally pay private enterprise to see that education, both general and technical, is made available where openings for the employment of the attributes and skills acquired are not likely to be suppressed. But powerful custom or prejudice, collusive action and legal enactment, by closing potential avenues of employment may destroy the motive for investment in human capital. Indeed, it will be wasteful for the state, for business concerns or for individuals to devote their energies and limited incomes to such purposes. But there would have been an irresistibly strong demand for developing the industrial usefulness of the Coloureds if it had not been for fears that any such move would have encountered other legislative steps to render unusable the skills so developed. The profit motive is powerful; but when it is likely to be overruled by legislation or regulation its power to serve the community is hamstrung....[5]

I have tried to show that in South Africa it has been to the advantage of investors as a whole that all colour bars should be broken down; and that the managements of commercial and industrial firms (when they have not been intimidated by politicians wielding the planning powers of the state) have striven to find methods of providing more productive and better remunerated opportunities for the non-Whites....[6]

The virtues of the free market do not depend upon the virtues of the men at the political top but on the dispersed powers of substitution exercised by men in their role as consumers. In that role, a truely competitive market enables them to exert the energy which enforces the neutrality of business decision-making in respect of race, colour, creed, sex, class, accent, school, or income group. The reader will have noticed that at no time have I claimed that the free market which released the "liberating force" has been motivated by altruistic sentiment....[7]

3 *Ibid.*, pp.68-69.
4 *Ibid.*, pp.72-73.
5 *Ibid.*, p.79.
6 *Ibid.*, p.173.
7 *Ibid.*, pp.174-75.

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Kefauver and Populist Economics

SAM PELTZMAN

In a Few Hands: Monopoly Power in America by Estes Kefauver, Baltimore: Penguin Books, 1965. 246p. $1.25, paper.

THE LATE SENATOR Estes Kefauver first came into prominence in the early 1950's as chairman of the Senate crime investigating committee. After he had made two unsuccessful bids for the Democratic Presidential nomination, his name reappeared in the headlines in 1958 when the Senate Subcommittee on Antitrust and Monopoly conducted hearings under his chairmanship on industrial pricing practices. *In a Few Hands* summarizes some of the more lurid findings which made those hearings newsworthy and serves as a vehicle for the Senator's random thoughts on the problem of monopoly in American industry.

Since the book is about monopoly, it was to be expected that Senator Kefauver would define the beast. The etymologically correct definition — a market served by one seller — applies to none of the industries discussed in the book (drugs, steel, baking, automobiles). Most of the time Senator Kefauver seems to apply the term to an industry dominated by a few firms, but he never does precisely define it. Sometimes it appears that the word "monopoly" is just longhand for "bad" — since a monopoly, whatever it is, is bad, many, if not all bad things derive from monopolies. This utter failure to make necessary intellectual distinctions is well illustrated by the Senator's discussion of the drug industry.

Here we have an industry in which Kefauver is able to cite numerous examples (pp. 11-23) of small competitors substantially undercutting their larger rivals in order to win orders, and he suggests that the availability of cut-price drugs is fairly widespread (p. 24). To be sure, price competition doesn't characterize all drugs; but the Senator makes it quite clear that the most notable exceptions are to be found among patented drugs.[1] Now, of course, price competition is absent here because of a *legally enforced* monopoly and has nothing to do with the particular market structure of the drug industry. Whatever else it may be, it is not the purpose of the patent laws to promote price competition in drugs or any other patented product but to prevent precisely that. If price competition in drugs now protected by patent is deemed desirable, then it is the patent law and not the structure of the drug industry which has to be changed.

If the drug industry, where it is unprotected by law, doesn't exhibit the

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1 *Op. cit.*, pp. 23-25, 36.

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evil pricing policies of monopolistic industries, what other evil doings can it be saddled with? In answering this question Senator Kefauver makes much of some of the defective drugs that have been introduced onto the market in recent years, e.g., thalidomide, chloromycetin, MER/29. The tragic consequences of the introduction of these drugs is well-known, and the Senator recounts them for his reader. Yet, again, the connection of all this with the market structure of the drug industry is never made clear. Do such mistakes occur more frequently because the drug industry is dominated by a few large firms, or would such events occur about as frequently if there were ten thousand equal sized drug producers? Surely it would seem that the losses incurred by way of law suits, damaged trade reputation, etc., would weigh as heavily against relatively large as against relatively small firms. Implicitly Senator Kefauver must have believed that these losses were somehow not as great for the relatively large firms, or that such firms derived some special gains from selling bad drugs; if he didn't believe this, why the association of the practice with "monopoly" and not, say, with stupidity? The reason for this belief is never spelled out, however, and it will remain a mystery to those who do not share the Senator's animus against the drug industry.

806

Since Senator Kefauver's discussion of other industries is no more precise and no less confused than that of the drug industry, it is easy to wonder if he was trying to make any point at all. He was; but it surfaces amidst contradiction, and it turns out to have nothing to do with monopoly at all.

SENATOR KEFAUVER'S central point becomes obvious when one compares his discussions of the steel and baking industries. The steel industry is chided for various monopolistic pricing practices — rigid prices, implicit collusion whereby all firms adopt the prices set by one of them, etc. If this or any industry is to serve the public interest, according to Senator Kefauver, the firms in it really ought to compete against each other in the most vigorous manner:

> It is this free spirit of individualistic behavior which gives to the public the benefits of competitive enterprise, namely lower prices and better quality. It is this same spirit which earns the enmity of the monopoly for its unsettling and disturbing impact upon established ways of doing things, not to speak of the disruptive consequences on [*sic*] monopolistic pricing and profits. [2]

Now, sometime after World War II some baking companies prospered by acting as the Senator believed steel companies should. They penetrated many markets by offering lower prices than existing bakers. Predictably, this forced some established bakers out of business. Yet this particular disturbance of established ways of doing business is *not* welcomed by Senator Kefauver. It is, instead, cause for complaint that "small producers, unable to stand up under the pressure directed against them by the giants of the industry, are disappearing from the American scene."[3] All of a sudden the laudable "competitive enterprise" recommended to the steel industry becomes, when practiced by baking companies, evil "competitive warfare."[4] The desideratum is no longer the "free spirit of individualistic behavior" but rather "free and *reasonable* competition."[5] Why this palpable contradiction, this switch from the ethics of competition to the ethics of the cartel? The answer has already been suggested: The aggressive bak-

2 *Ibid.*, p. 138.
3 *Ibid.*, p. 143.
4 *Ibid.*, p. 139.
5 *Ibid.*, p. 144. Emphasis added.

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ers, because of their success, have become *large;* they are replacing *small* bakers. This really is the crux of the matter. Both the aggressive baker and the somnolent steelmaker are bad mainly because they are big. It would do little good to point out that large absolute size has nothing per se to do with monopoly; that, in fact, many of the small bakers replaced by large, nationwide bakers were local monopolies; and that a few large companies competing in several local markets make for a more competitive industry than several local monopolies. Senator Kefauver simply seems to have had a tropistic reaction against big corporations (the TVA excepted) which he embellished with the nostalgia for rural and small town America that comes from his Populist political heritage.[6] He tends to identify this advocacy of an economic system composed of many, physically small firms with advocacy of the competitive system and opposition to monopoly. The normal functioning of a competitive system will, of course, comprehend cases where large firms win out over small firms. At no point in his book, however, does the Senator point to any such event as an example of the healthy functioning of a competitive economy. Where such events are alluded to, as with the baking industry, the context is the triumph of evil bigness over the victimized innocence of the small.

Once Senator Kefauver's basic premise becomes clear, many of the other points he makes become explainable, if not particularly understandable. Take, for example, his discussion of the relationship between monopoly and the development of a community — "monopoly" for these purposes being identified with the dominant importance of large absentee-owned industries in a community's economic life. To monopoly, or rather to this grotesque *A is bad, B is bad, therefore A is B* definition of monopoly, Senator Kefauver attempts to attribute, in whole or part, each of the following community ills or presumed ills: shoddily built houses, slums, high bankruptcy rates among small retail stores, high infant mortality rates, lack of popular interest in literature and education, low church membership, a diminution of the spirit of neighborliness and good fellowship, and excessive time spent by youths in pool halls.[7] This incredible list could be expanded. Some may be tempted to find in all this a reflection of the type of mentality that moved men to burn witches in former times. To Senator Kefauver, however, it must have appeared the simple truth that where the desirable attributes of the small Tennessee town have vanished, big companies captained from the far-off metropolis are the cause of it all. Anyhow, talking against monopoly is these days more socially respectable than witch burning.

IT IS PERHAPS fortunate that all Senator Kefauver, the co-author of an important antitrust statute, did in his book was to talk against monopoly. He made no important policy recommendation for remedying what he conceived to be the monopoly problem. In fact, he is at his most perceptive where he discusses and rejects certain remedies advanced by others. He rejects general government price regulation, for example, because of a clear recognition that where it already exists — e.g., airlines, railroads, natural gas — such regulation has become little more than a shield for cartelization.[8]

6 *Ibid.*, pp. 160-61.

7 *Ibid.*, pp. 170-71, 177-78, 183

8 Cf. C. D. Stone, "ICC: Some Reminiscences on the Future of American Transportation," *New Individualist Review*, Spring 1963, pp. 3-15; S. Peltzman, "CAB: Freedom from Competition." *ibid.*, pp. 16-23; R. W. Gerwig, "Natural Gas Production: A Study of Costs of Regulation," *Journal of Law and Economics*, V (1962), 69-92.

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BOOKS:

Freedom Under Lincoln by Dean Sprague, Boston: Houghton Mifflin Co., 1965. 345 p. $5.95.

808

THE COMPLETION, a year ago, of the centennial celebration affords an opportunity for a more sober re-evaluation of the Civil War's continuing influence upon American life and thought. *Freedom Under Lincoln* is a useful contribution to Civil War history which also offers timely instruction for our own day. In a dramatic and interesting way, it tells the story of the suppression of civil liberties in the United States as the Lincoln Administration struggled to preserve the Union. In the unprecedented experience of trying to cope with the problems of secession and civil war, the North lived in a state of public hysteria. Fearful for the safety of the capital at Washington and of the border slave states of Maryland, Kentucky, and Missouri, the President, without consulting Congress, suspended the writ of habeas corpus and permitted Secretary of State Seward to order the arbitrary martial arrest and imprisonment of hundreds of American citizens.

More than in any other crisis in the nation's history, the Civil War raised the question of the extent of the individual's loyalties and responsibilities in relation to his government. Though there was justifiable concern in the North over the presence there of thousands of Southern sympathizers, it was nevertheless tragic that the Lincoln Administration felt forced to abandon traditional American rights and freedoms. In addition to the sudden arrest of citizens whose loyalty was suspect — often on the flimsiest sort of hearsay evidence — newspapers were coerced or suspended, state legislatures dissolved, and free elections corrupted. Soldiers home on leave heightened the intolerant militarist atmosphere in the North while, again and again, as Sprague's book demonstrates, the doctrine of military necessity was used improperly to justify harsh measures. More often than not, the appeal to national security, in areas far removed from the battlefield, was simply an excuse to cloak the expansion of Federal power over the states and individual citizens. In the author's words, "the policy of repression did have a tremendous impact on the nation. It fundamentally altered the balance of power between the Federal and state governments, laying the groundwork for such actions as the national draft and the Federal income tax."

Fortunately, most of those imprisoned were held only for short periods of time — as the protests against the arbitrary arrests grew in volume and intensity. Some of those taken away, such as James Wall of New Jersey who later became a United States Senator, actually derived a certain political benefit from their imprisonment and never stopped talking against the War. After 1861, when the immediate military safety of the North was largely assured, the suppression of dissent was directed mainly against those who advocated the prompt negotiation of a peace settlement with the South; and later, in 1863, when Clement L. Vallandigham was arrested for stating his peace views, the famous midnight knock on the door by agents of Secretary Seward or Stanton had become a rare event. As the brave but scattered voices of dissent were silenced, the growth of national power over the indi-

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vidual become more and more a component part of the preservation of the Union.

ALTHOUGH THE BROAD outlines of the American democratic process were preserved, and although Lincoln himself exercised a mild and humane influence within his Administration, it is clear nevertheless that the Civil War did great violence to the Constitution it sought to safeguard. In the very process of extending freedom to the Negro slaves, countless Americans were temporarily deprived of their civil liberties and personal freedom. That the ultimate legacy of the Civil War was, however, one of hope rather than despair is indicated in the author's concluding quotation from the Supreme Court's classic postwar defense of individual rights in the celebrated Milligan case of 1866. In language which has echoed to our own time, the Court held that "the Constitution of the United States is a law for rulers and people, equally in war and in peace, and covers with the shield of its protection all classes of men, at all times, and under all circumstances."

—*ARTHUR A. EKIRCH. JR.*[1]

1 Arthur A. Ekirich, Jr. is Professor of History at the State University of New York at Albany. He is the author of *The Decline of American Liberalism* and *The Civilian and the Military.*

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NEW BOOKS AND ARTICLES

THE FOLLOWING IS A SELECT LIST OF BOOKS AND ARTICLES WHICH, IN THE OPINION OF THE EDITORS, MAY BE OF INTEREST TO OUR READERS.

Robert M. Hurt and Robert M. Schuchman, "The Economic Rationale of Copyright," *American Economic Review,* LVI (May 1966), 421-32. The authors, who were both closely associated with *New Individualist Review,* argue that copyright is not the most suitable way either to protect property rights in publication or to promote publication. "If we believe in the theory that an author is entitled to certain moral rights as an extension of his personality, then traditional tort law protection could satisfy our objectives short of a copyright monopoly grant. If we are attracted by the analysis of the Register of Copyrights, that society has an obligation to support the creators of literary products, our goal could be achieved by other methods of reward than copyright, such as tax exemptions for royalties or payment of cash bounties for literary creation....We can say that the traditional assumption that copyrights enhance the general welfare is at least subject to attack on theoretical grounds; the subject certainly deserves more investigation and less self-rightious defense."

811

One of the most interesting and lively publications on the market today is *Innovator,* devoted to "applications, experiments, and advanced developments of liberty." In its June issue, several authors provide the reader with information about the origins of the government postal monopoly, and the *non-governmental* origins of most of the technological advances which the industry has made. An earlier issue (January 1966) carried articles concerned with the question of privately owned roads and highways, as opposed to the present system of government-maintained roads. Published in newsletter format, a year's subscription is $2.00. Write: *Innovator,* Box 34718, Los Angeles, Calif. 90034.

Grant McConnell, "P.R. in the Forests," *Sierra Club Bulletin,* April 1966. Prof. McConnell, of the Department of Political Science at the University of Chicago, cites evidence in this article to add the United States Forest Service to the list of regulatory agencies taken over and made to serve the interests of those supposedly regulated: "As with other reforming and formally independent agencies, time and exposure took their toll. In order to survive and also maintain its bureaucratic autonomy, the Forest Service had to accomodate itself to the interest groups whose activities it was supposed to regulate. Over time, the service, like such other independent regulatory agencies as the ICC, the CAB and the SEC, acquired as its own constituency a particular industry, in this case lumber. Thus, in symbiotic relationship, there lies behind the Forest Service a strongly organized and determined lumbering industry." Write: Sierra Club, 220 Bush Street, San Francisco, Calif. 94104. This article is an adaptation of one by the same title which appeared in the *Nation,* December 27, 1965, and additional material is in Prof. McConnell's recent book, *Private Power and American Democracy* (New York: Alfred A. Knopf, 1966), $4.95.

Jora R. Minasian, "Television Pricing and the Theory of Public Goods," *Journal of Law and Economics,* VII (October 1964), 71-80. This article, in

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the form of an analysis of the theory of public goods advanced by Prof. Paul A. Samuelson, is a fine addition to the literature on pay television. Prof. Minasian is chiefly concerned with the additional choices in programming which would be yielded by subscription TV, since, of the two, subscription pricing would be more responsive to minority consumer wants. This article should be read in conjunction with R.H. Coase's article, "The Federal Communications Commission," in the second volume of the *Journal* (1959). For subscriptions or single copies, write: *The Journal of Law and Economics,* University of Chicago Law School, Chicago, Illinois 60637. Single copies, $2.50; students, $1.00. The *Journal* is issued annually; subscription prices are multiples of single copy prices.

Two articles in major publications have recently noted a striking comparison between the United States today and the first years of the Roman Empire: Thomas Molnar, "Imperial America: A Look into the Future," *National Review,* May 3, 1966, and Hans J. Morgenthau, "The Colossus of Johnson City," *New York Review of Books,* March 31, 1966. Although the two authors differ markedly in their political views, both writers recognize that Empire may work unintended effects upon American federal institutions. These articles, and many others offering a more thorough treatment of the subject, ought to be of interest (i) to conservatives who advocate a vigorous foreign policy but limited government at home, and (ii) to social democrats who oppose such a foreign policy but favor a vigorous government at home. Specifically to be recommended is a pamphlet by Garet Garrett, first published in 1952 and reprinted in his book *The People's Pottage* (Caldwell, Idaho: Caxton Printers, 1953), entitled "The Rise of Empire." This short piece is an excellent, perceptive analysis of the degeneration of a republic into an empire through the actions of a strong central executive and an aggressive foreign policy. A condensed reprint of this article appeared in the Winter 1966 issue of *Left and Right* (Box 395, Cathedral Station, New York NY 10025; 85 cents).

An informative discussion of the recent Supreme Court ruling in the Ginzberg and other pornography cases is provided in the April 11, 1966, issue of *The New Leader,* by Richard Morgan of Columbia University ("The Court and Obscenity"). Morgan emphasizes the lack of logic and arbitrariness of the Brennan decision against Ginzberg, underwritten by Warren, Fortas, and two other Justices. The issue is dealt with also in an editorial in the April 19, 1966, issue of *National Review* ("Ginzberg and Pornography"), a contribution to the discussion notable not so much for the light it casts on the problem as for the insight it provides into the thinking of contemporary American conservatives. *National Review's* editorial comment exhausts itself in irrelevent sallies against "the hypocrite Ginzberg...a pornographer-for-profit," the foolishness of some of his supporters, etc. The focus is on personalities, and missing entirely is any discussion of the one important question: *Should the government be permitted to censor any publication simply on the grounds of obscenity; and if so, Why?*

"The Draft is Unfair," by Jack Raymond. *The New York Times Magazine,* January 2, 1966. A brief summation of the reasons underlying the frequent charge of unfairness leveled against conscription as it operates in the United States. We will hopefully be excused for considering the most significant part

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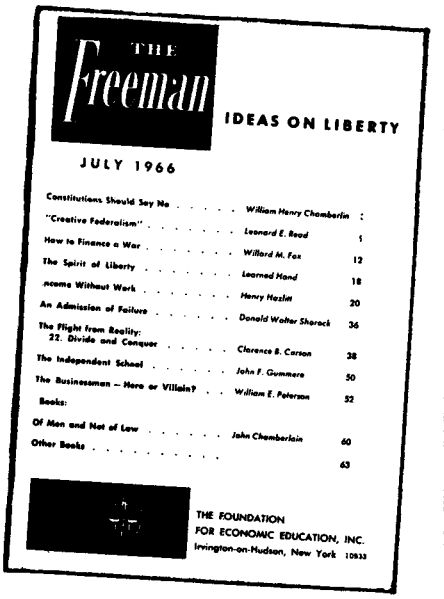
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The Spirit of Liberty . . . . . Learned Hand 18
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of the article to be the extended comments by Prof. Milton Friedman, who favors an all-volunteer military force except in cases of wars on the scale of World War II (but his position on volunteer forces holds for cases such as Viet Nam). States Friedman: "Conscription is a tax in kind — that is, forced labor imposed on the young men who are drafted or who volunteer to serve because of the threat of the draft. One of the great advances in human freedom was the conversion of taxes in kind to money taxes. A similar advance would be attained now by repealing conscription and using volunteer enlistments to staff our armed forces. In order to do so, we would, of course, have to make military service sufficiently attractive in terms not only of pay but of career opportunities and conditions of service to get the number of men we need. But this is an advantage, not a disadvantage. It would be not only more equitable but also more efficient." Friedman considers that the estimated increased cost of the volunteer system ($4-6 billion) is somewhat exaggerated, and thinks that the taxpayers would be ready to accept the increased costs in order to abolish a bad institution.

In the second issue of *Left and Right,* published last Autumn, Murray N. Rothbard has an article of major interest on "Liberty and the New Left." The author persuasively maintains that the New Left — in contradistinction to the old Left — places a good deal of emphasis on values which the libertarian also shares: decentralization of power, personal autonomy, distrust of government, its bureaucracy and police. Moreover, certain writers closely associated with the New Left, e.g., Paul Goodman, are proving interestingly attracted to the voluntarism of laissez faire capitalism.

Ronald Hamowy, "Left and Right Meet," *The New Republic,* March 12, 1966. Ronald Hamowy of Stanford University, discusses the transposition which has taken place between Right and Left: whereas the New Left seems to be libertarian, the Right-wing has become more statist in the last decade. This article appears also in a book *Thoughts of the Young Radicals,* published by *The New Republic,* and available from them for 75 cents.

In its April 21 and April 28, 1966, issues, *The Village Voice* featured a report on Synanon, the radically different and relatively extremely successful method of treating narcotics addicts ("The Synanon Way," by Ross Wetzteon). "In an area where statistics are more inconclusive than usual, the most conservative estimate is that Synanon has nine times the 'cure-rate' of any other method. Other estimates are bolder — no other method works at all." Especially interesting from the viewpoint of libertarians is the fact that Synanon has been developed and the centers were started for its application completely independent of any governmental agency. New York City recently offered the organization a grant of $328,000, but this was turned down. Marvin Tobman, one of the leaders of the school, explained that if money comes from the government, "no matter how much it is, it's no good. All the money would mean is that we'd become dependent. Pretty soon they'd be sure to get their hooks into us and before you know it they'd be saying you have to put this bed over there and move that chest of drawers over there. We'd end up just another run-of-the-mill flophouse. This way it's all ours." Funds for the organization come from private donations (averaging $25-30), private organizations such as Yale University, and from the proceeds of Synanon Industries, Inc., "the largest distributor of pens on the West Coast."

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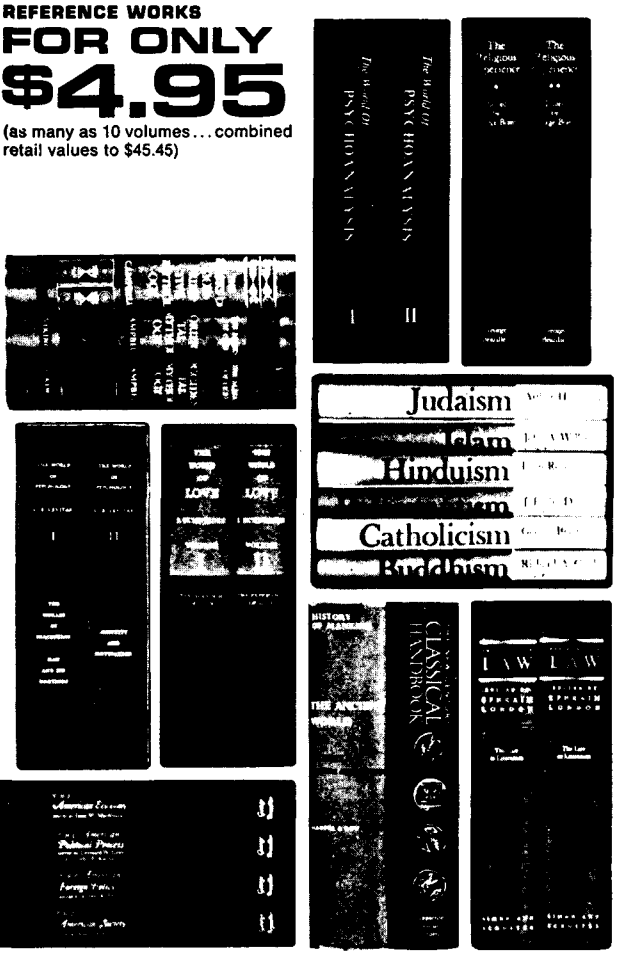

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816

"(1) First we will trick them into banning prayer in the public schools. Just as fluoridation of water destroys the body, so the elimination of public-school prayer destroys the spirit.

"(2) Then, in keeping with our almost Oriental immoralism, we will begin the steady introduction of pornographic materials—both those which are rankly so, and those which we will camouflage as "avant-gardism"—into American society. Pornography will be the chief weapon in our campaign to rot out the moral fibre of America, but abstract art and 12-tone music are not to be neglected in this connection.

"(3) Our final take-over will be preceded by an unparalleled crusade to destroy the magazine, *NEW INDIVUDUALIST REVIEW*. This quarterly journal, because it is so highly informative, entertaining, and intellectual, is perhaps our single most serious problem in the United States, rivalled only by the Strategic Air Command. To destroy *NEW INDIVIDUALIST REVIEW* is to make America a plum ripe for the picking!"

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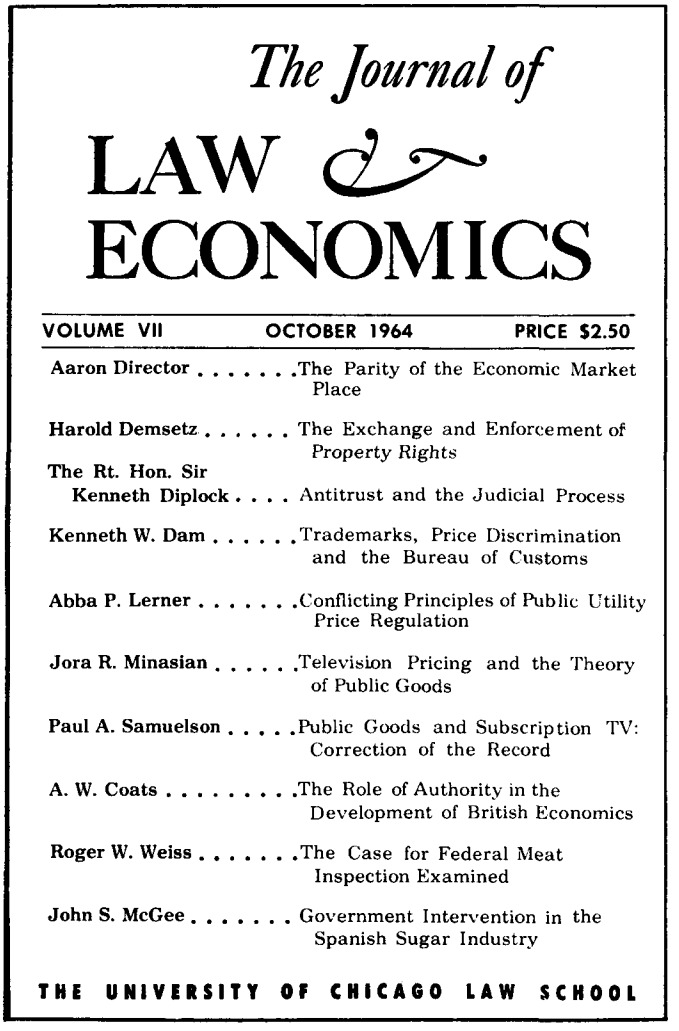
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